



**FOREIGN  
BROADCAST  
INFORMATION  
SERVICE**

# ***JPRS Report***

**DISTRIBUTION STATEMENT A**

Approved for public release  
Distribution Unlimited

# **China**

19980113 065

**DTIC QUALITY INSPECTED 3**

# China

JPRS-CAR-92-072

## CONTENTS

23 September 1992

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

State Price Bureau Roundup on 1991 Price Adjustments [ZHONGGUO WUJIA 17 Jun]	1
Discussion on Inflationary Impact of Hidden Factors [JIAGE YUEKAN 5 Jun]	2
Markets Show New Development, Maturity [XINHUA]	5
Materials Minister on Circulation Reform, Markets [GAIGE 20 Jul]	6
Roundup of Symposium on Developing Tertiary Industry [GUANLI SHIJIE 24 May]	10
Journal on Structural Reform, Property Rights [JINGJI GUANLI 5 Apr]	14
Journal Views Industrial Structure Problems [JINGJI YANJIU 20 Apr]	18
Current 'Theoretical Hot Points' Analyzed [JINGJI RIBAO 25 Jul]	24
QIUSHI on New Enterprise Operation Rules [1 Aug]	28

#### PROVINCIAL

Commentary Urges Developing Individual, Private Economy [GANSU RIBAO 27 Jul]	34
--	----

#### FINANCE, BANKING

Seminar on Share-Holding Companies Opens in Beijing [XINHUA]	35
--	----

#### SMALL-SCALE ENTERPRISES

Commentary on New Strategy for Township Enterprises [NONGMIN RIBAO 15 Jul]	35
--	----

#### LABOR

24 Million Retired in 1991 [ZHONGGUO TONGJI XINXI BAO 27 Jul]	36
Beijing Economics Professor on Furthering Wage Reform [GUANLI SHIJIE 24 May]	37

#### TRANSPORTATION

Northwest Constructs Air, Road, Rail Facilities [XINHUA]	44
--	----

#### AGRICULTURE

XINHUA Commentator on Improving Agriculture [XINHUA]	45
Report on Reactions to Grain Price Increase [JIAGE YUEKAN 5 Jun]	46
Farm Bureau Works for Pollution-Free Produce [XINHUA]	49
Zhejiang To Liberalize Grain Markets Next Year [Hangzhou Radio]	50

#### TAIWAN

Collusion Between Government, Business Decried [TZULI WANBAO 9 Jul]	51
Upcoming December Elections: Another Vote-Buying Game [TIENHSIA 1 Aug]	51
Legislative Yuan Seats for Sale Again [TZULI WANBAO 15 Jul]	54

## NATIONAL AFFAIRS, POLICY

### State Price Bureau Roundup on 1991 Price Adjustments

92CE0618A Beijing ZHONGGUO WUJIA [PRICES IN CHINA] in Chinese No 6, 17 Jun 92 pp 21-22

[Article: "Price Adjustments in 1991"]

[Text] In 1991, central and local governments, observing the guiding principle of "stabilizing commodity prices and invigorating the economy," concretely and safely made a series of price adjustments, and reduced or resolved certain rather salient price contradictions. Based on data collected from China's 28 provinces, cities and autonomous regions, the 1991 price adjustments may be described as follows:

#### I. Commodity Retail Prices and Service Fees

Combining both increases and decreases in China's commodity retail prices and fees for services in 1991, the net price increase totalled 26.446 billion yuan (with increases totalling 26.911 billion yuan, and decreases 456 million yuan). In the net figure, the net commodity retail price increase amounted to 22.469 billion yuan, or 85 percent, and 5.546 billion yuan more than the 1990 figure, which represented a net increase of 2.4 percent. The net fees for services increase was 3.977 billion yuan, or 15 percent.

In adjusting commodity retail prices, the government took advantage of opportunities made available by the macro-economic environment, and made relatively great strides forward. In terms of price increases by commodity categories, most increases were in the food category totalling 16.827 billion yuan, or 74.9 percent of the net retail price increase, with most of the increases coming from grain and cooking oil. The net firewood and farm production materials price increases were also considerable, totalling 2.128 billion yuan and 1.317 billion respectively. The two categories combined accounted for 15.3 percent of the net commodity retail price increase. The commodities with relatively small net price increases, all under 100 million yuan per category, included clothing, cultural and entertainment items, and drugs and medical care items.

In adjusting commodity prices, the government raised the grain wholesale price on 1 May 1991 by gradually rationalizing grain prices, arousing peasant initiative to grow grain, energizing the grain market, and lessening the financial burden on government. In 1991, the government also readjusted retail prices of such commodities as vegetable oil, processed oil, drugs, rock salt and lubricating oil. Some provinces and cities also readjusted prices of such commodities as soy sauce, vinegar, milk products, soy bean products, wine, iron pots, soap, color TV, drugs, household use coal, liquified petroleum gas, plastic film for farming, nitrogenous fertilizer, compound fertilizer and potassium chloride. In addition,

among the state guided commodity prices, some provinces and cities also readjusted prices of pork, black and white TV, bicycles, and any unplanned nitrogenous fertilizer. In the above price adjustments, except for price decreases for TV sets, prices were increased for all other commodities.

In terms of the three types of pricing, the net increase of certain state-set prices totalled 21.78 billion yuan; and the net increase of certain government guided prices totalled 689 million yuan. Among state-set commodity prices, more State Council managed commodity prices were adjusted, with the net increase totalling 17.429 billion yuan, or 80 percent; and the net increase of regional government managed commodity prices totalled 4.351 billion yuan, or 20 percent.

In terms of service fees, adjustments were made in rail and bus passenger tickets, water, park admissions, motion picture admissions, public bath, haircut including apprentice fees, telephone calls, hotel lodging and medical care, with the net increase totalling 3.977 billion yuan, which is 1.322 billion yuan less than the 1990 net increase.

#### II. Agricultural and Sideline Product Procurement Prices

In government-managed agricultural and sideline product price adjustments in 1991, price increases and decreases resulted in a net decrease of 83 million yuan; a total of 421 million yuan represented the increases, and 504 million yuan the decreases. Following are several special characteristics of the 1991 agricultural and sideline product price adjustments.

A. Fewer agricultural and sideline product prices were adjusted, and the amount involved was less compared to 1990. The 1991 agricultural and sideline product procurement price increases were 9.524 billion less than the increases in 1990, and price decreases were 841 million yuan less than those the year before, with the result that the 1990 net increase of 8.6 billion yuan was turned into a net decrease of 83 million yuan in 1991. The main reasons for the price decreases were: 1) One-third of the regions did not adjust prices, but maintained the government-managed agricultural and sideline product procurement prices of the year before. 2) Price adjustments affected only a few of the State Council managed agricultural and sideline products, such as wild silkworm cocoons, silkworm cocoons and long-strand cotton. In 1990, prices were adjusted for more than 10 commodities including sugarcane, beet roots, soy beans, peanuts, vegetables seeds, sunflower seeds and flue-cured tobacco. 3) In some commodities managed by regional governments, the range of price adjustments or quantity procured was limited, resulting in a net price increase of only 18 million yuan, with 53 million yuan of increases offsetting decreases of 35 million yuan.

B. Lower state guided commodity prices had an impact on the total price adjustment amount. Examining the data collected from 28 provinces, due to lowered prices

of such commodities as hogs, sheep's wool, negotiated-priced grain and Xijiang's cinnamon bark, state guided commodity price decreases reached a total of 464 million yuan. Hog prices in Sichuan Province dropped from 252.86 yuan per 100 kg to 246.35 yuan, and in Zhejiang, from 320.42 yuan to 307.87 yuan. Prices of sheep's wool declined in Liaoning, Qinghai and Xinjiang Provinces, with price decreases totalling 23 million yuan. Due to insufficient demand, the negotiated prices of grain in Jilin, Ningxia and Jiangxi Provinces dropped, with price decreases totalling 367 million yuan. Especially severe a price drop was in the grain-producing Jilin Province, from 47 yuan per 100 kg to 40 yuan, and in this category alone, price decreases totalled 350 million yuan.

C. Among the state-set commodity prices, relatively large price adjustments were made in commodities managed by the various State Council departments. In 1991, increases in state set procurement prices for agricultural and sideline products totalled 235 million yuan; of which, 182 million yuan or 77 percent represented State Council managed commodity prices; 53 million yuan or 23 percent represented regional government managed commodity prices. In quantitative terms, State Council managed price decreases exceeded those managed by regional governments.

Because the 1991 price adjustment amounts were not large, no great impact was anticipated in the procurement price level of agricultural and sideline products in 1992.

### III. Factory Prices of Industrial Products

Adjustments of factory prices of industrial products in 1991 resulted in a net price increase of 30.886 billion yuan, of which 31.547 billion yuan represented price increases, and 661 million yuan price decreases. From the price adjustment date to year's end, the net price increase for the year totalled 20.175 billion yuan. Following are several characteristics of adjusting factory prices of industrial products:

A. A relatively large proportion of state-set prices were adjusted. In 1991, the State Council put forward six price adjustment measures, including: 1) quarterly price adjustment of petroleum and iron and steel product series, and of railroad freight cost; 2) quarterly price adjustment of cement; 3) quarterly price adjustment of raw materials, and 4) quarterly price adjustment of lubricating oil and industrial coal supply cost. In 1991, the net state-set price increase totalled 29.798 billion yuan, or 96 percent of the total net price increase; and the net state guided price increase totalled 1.088 billion yuan, or 4 percent of the total net price increase.

B. Prices were adjusted in many more commodities managed by the State Council departments than in commodities managed by regional authorities. In 1991, numerically and proportionately, more central government managed price adjustments were made. Regional governments supported the smooth implementation of government price reform, and took concrete, measured

steps to adjust a series of prices, the most important of which included: nitrogenous fertilizer, plastic film for farming, agricultural pesticides, Chinese and western drugs, and chemical industrial products. But from an overall standpoint, in terms of net state set price increase, the net increase of prices managed by the State Council organs totalled 21.897 billion yuan, or 73 percent of the total net price increase; and the net increase of regionally managed prices totalled 7.901 billion yuan, or 27 percent of the total net increase.

C. The key to price adjustment involved basic industrial product prices. Price increases in these categories were both numerous and large in amount. In industrial products, of the net factory price increase of 30.886 billion yuan, 14.207 billion yuan or 46 percent represented energy fuel costs; 5.397 billion yuan or 17 percent were ferrous metallurgical products; and 1.533 billion yuan or 5 percent were nonferrous metal products. The price increases of the above three categories alone totalled 21.137 billion yuan, or 68.4 percent of the total net price increase. To adjust upward the prices of basic industrial products is to take concrete measures to solve the price "bottleneck" contradiction, to hasten rationalization of the industrial system, to reduce the financial burden on government, to increase supply effectiveness of the market economy, and to promote the coordinated development of the national economy.

### Discussion on Inflationary Impact of Hidden Factors

92CE0648A Nanchang JIAGE YUEKAN [PRICING MONTHLY] in Chinese No 6, 5 Jun 92 pp 33-34

[Article by Song Kechuan (1345 0344 0278): "Warning About Highly Inflationary Impact of Hidden Factors"]

[Text] After three years of improvement and rectification, the relatively rapid inflation that had been occurring throughout China has been brought basically under control. The inflation rate has fallen noticeably, and people everywhere feel that markets and prices are stable. However, on the basis of a study of economic development over the past two years in Xiangfan City, Hunan Province, I believe that factors that could cause high inflation (above target) have not only failed to disappear, but are continually increasing. This is cause for great concern.

1. The first factor is the abnormal growth of bank loans and money supply, which has increased inflationary pressure. To shake off the market slump and jumpstart the economy, banks everywhere in the past two years have greatly increased loans and money supply. Net currency disbursements in Xiangfan City in 1990 and 1991 were, respectively, 536 million and 375 million yuan. These figures, respectively, were 95.2 and 36.7 percent higher than in 1988, a year of economic overheating. Money supply for the city in 1991 was 1.950 billion yuan, which was 1.43 times as great as in 1988. This growth rate was 135 percentage points higher than

that for national income over the same period. In 1991 the ratio of money in circulation to total retail sales volume was 1:2.17, much lower than the ratio of 1:4.49 in 1988. These figures show that the money supply exceeds actual demand by a lot, resulting in inflated currency (it is only due to the market slump that inflation has not yet appeared). Theoretically, when the prices of most products are determined by market conditions, there is a positive correlation between money supply fluctuations and price fluctuations, so the effect upon market prices of an abnormally expanded currency is strengthened. It is worth noting that the greater part of the currency and loans released in the past two years has been used to make up for a shortage of working capital. With the current serious inventory buildup and cash flow difficulties, it has been necessary to increase new loans to maintain the normal functioning of social reproduction. This has resulted once again in a "settling out" of new funds, which is another inflationary factor. Once markets liven up and the economy recovers to a certain level, the funds which have "settled out" in the past few years will inevitably have a negative impact upon the market, which will once again trigger inflation.

2. There are signs of excess investment demand, and there is danger that market prices could be raised. Excess investment demand manifests itself first in excessively rapid investment growth, and second in a rate of investment growth which exceeds that for national income growth. On the one hand, this directly pushes up prices for building and decorating materials. Furthermore, 40 percent of total investments are converted into consumption funds, thereby driving up retail prices. A review of past performance indicates that if fixed asset investments in a given year increase relatively rapidly and this growth exceeds that of national income, there will be a relatively large jump in market prices during the current and following year (because investment growth has a delayed impact upon market prices). In contrast, if fixed asset investment growth is relatively slow, or even slower than the growth of national income, market prices will be relatively stable or even fall during the current year and the following one.

With the goals of the improvement and rectification policy soon to be accomplished, most provinces and municipalities have relaxed controls on fixed asset investment to jumpstart their economies. The growth rate of fixed asset investment in 1990 and 1991 in Xiangfan City far exceeded that of national income. In 1991, work began on 235 fixed asset projects throughout the municipality, which represented an increase of 29.10 percent and was 53 more than in the overheated year of 1988. Most of these newly commenced projects will be completed in 1992, so their impact upon market prices in 1992 cannot be overlooked. An examination of the current situation shows that investment growth has already affected the stability of market prices. The prices of some building and decorating materials have already started to rise. For example, the local price of lumber has already risen from 800 yuan per cubic meter last year to

1000 yuan at the same period this year, a 25 percent jump. The price of construction bricks in Gucheng County has risen from seven to nine yuan per hundred. This has caused a 29.20 percent jump in prices for building and decorating materials in Xiangfan City by February 1992. If investment growth in the future continues to far outpace the growth of national income, the needed capital goods and articles of daily necessity will become scarce, which could very well cause the prices of other products to rise sharply.

3. Surplus purchasing power has risen rapidly and cash on hand has expanded, resulting in a noticeably increased impact upon prices. In 1991, the state lowered savings interest rates several times and effectively eliminated inflation-indexed savings, yet savings still increased sharply everywhere. In Xiangfan City, for example, the savings of urban and rural residents at the end of 1991 came to a balance of 3,666,880,000 yuan, the highest level in history and 22 percent higher than the year before. The cash on hand of individuals also rose sharply, in this city reaching 103.32 yuan per urban resident and 213.26 yuan per rural resident at year's end. These figures were, respectively, 90 and 118 percent higher than in 1988, when buying panics erupted. This pushed surplus purchasing power for the entire city at year's end to 1.18 billion yuan, or 2.8 times greater than total retail sales for 1991. It is worth noting that the proportion of surplus purchasing power accounted for by residents' cash on hand is continually rising, reaching 23.3 percent at the end of 1990 and 25.4 percent at the end of 1991. This figure had stood at 24.6 percent at the end of 1988. This indicates a clear strengthening of disposition to buy. People everywhere have cash in their pockets waiting to be spent, and once markets change and this pent up purchasing power, now acting like "a sheep in a pen," is unleashed, it will become "a tiger out of its cage," sparking another wave of panic buying and price hikes.

4. As costs continually rise, there is danger that prices will be pushed up. In recent years, the state has raised the price of coal, petroleum, and other primary products several times, and the gap between official and market prices for some capital goods under the dual track price system has disappeared or narrowed. This has forced producer enterprises to pay continually higher prices for fuel and raw and semi-finished materials. In Xiangfan City in 1991, for example, industrial enterprises paid 5.6 percent more for fuel and raw and semi-finished materials than in the previous year. Prices for raw and semi-finished materials rose most rapidly, 10.7 percent, in the textile industry. Simultaneously, at a time of anemic revenues for the state and for local governments, and with sparse economic benefits being produced by enterprises, various localities and organizations have repeatedly raised wages, bonuses, and subsidies to improve the people's standard of living. In Xiangfan City in 1990 and 1991, for example, average wages for workers in industrial enterprises rose, respectively, 10.3 and 14.1 percent, and these figures were higher than the

increase in labor productivity over the same periods by, respectively, 16.2 and 7.0 percentage points. In addition to expanding the pool of consumption funds, this can also increase production costs. As a result, for products where comparison is possible, production costs for all state-owned enterprises in the entire city came to 3,888,500,000 yuan, a 13.7 percent increase over the previous year. When the degree of fluctuation in the production costs of products for which annual comparisons are possible is compared to the degree of fluctuation in retail prices, one discovers a strong positive correlation (correlation coefficient equals 0.7172). In other words, changes in retail prices are directly proportional to changes in production costs. With most enterprises ill capable of absorbing costs, and with deregulated prices for most products, many enterprises have passed the burden on by raising prices. As a result, factory prices for the entire municipality's industrial enterprises rose 2.2 percent in 1991. Factory prices for light industrial products made from agricultural raw materials rose 5.9 percent. The impact on overall retail prices cannot be ignored.

5. Measures to reduce inventories by limiting production will affect the supply and demand situation for popular products, leading to higher prices. To reduce the amount of funds tied up in inventory, almost all light industrial enterprises have adopted measures to reduce inventories by limiting production. At the same time that these measures reduce irrational inventories, they will also reduce production of popular products, resulting in undersupply. With cost push, demand pull, and deregulated prices, prices will inevitably rise. Beginning in the fourth quarter of 1991, for example, class A filter cigarettes were in undersupply throughout China and the price rose sharply, and during January and February 1992 in Xiangfan City the price of all types of class A cigarettes rose 12.1 percent, while the price of famous name brand cigarettes rose 34.3 percent. This alone caused an upward shift of 0.5 percent in the overall retail price level. The situation at present shows that measures to restrict production makes popular products hard to find, and the result is higher prices. Furthermore, most of the products in the basket used to calculate the price index are popular ones and thus have a relatively large impact on overall price statistics.

The effect of the inflationary factors listed above has only been temporarily held at bay by the market slump, but as the pace of reform quickens the economy will gradually recover. Once markets revive, prices which are divorced from value will behave just as they always have. Price readjustments for certain products have remained incomplete in the past few years, but these readjustments will gradually resume, bringing more inflation. As a result, the factors which before represented potential for inflation will now pose a present threat of inflation. We must plan for hard times when the going is easy by taking preventive measures as soon as possible.

First, we must strengthen macroeconomic regulation and control, keep supply and demand in balance, and maintain a basic equilibrium of the product mix. First of all, we must control credit and the money supply so that the money supply will be fundamentally in line with market demand for money. It is particularly important at this time to be concerned about the delayed impact of loans injected into the system during 1990 and 1991 so as to prevent large amounts of funds from settling out, on the one hand, and to prevent new loans (continually made to maintain production) from causing a large money supply increase. At the same time, we must be aware of the need to take funds which have settled out and get them back into circulation. We must work hard to clear up debt chains. Second, we must exercise an appropriate degree of control over fixed asset investments so as to prevent a few large infrastructure projects from being launched in a sudden rush and jolting markets. Third, we must increase the supply of products which sell well. We must not treat all products with a broad brush in our efforts to limit production and shrink inventories, but should increase production of popular products to assure supply and maintain a basic equilibrium of the product mix.

Second, we must press further with enterprise reform, and industrial and commercial enterprises must jointly absorb rising costs for raw and semi-finished materials. We must start by solving three stubborn problems. We must tap the enthusiasm all workers and staff, enhance their sense of responsibility, raise labor productivity, and work hard to increase income and production while reducing expenditures and costs. We must make industrial enterprises work hard to absorb inflationary factors, lower production costs, lower factory prices, and lighten the impact upon market prices. The commercial sector, in order to lower prices and lighten pressure upon retail prices, must shrink the circulation link, lower circulation costs, and earn more money by selling more units at lower profit per unit.

Third, we must accelerate housing and health care reform, and provide instruments to absorb excess purchasing power. The scope of private consumption in China is currently quite narrow; 94 percent of all living expenses go toward the purchase of products, so the huge pool of surplus purchasing power exerts enormous pressure upon consumer goods markets. From a long-term perspective, we should work hard to develop tertiary industries and broaden the scope of private consumption. At this point we could accelerate housing and health care reforms presently under consideration. In particular, we could take measures to encourage private individuals to buy housing, thereby sopping up some excess purchasing power. At the same time, we could build up stock and securities markets to an appropriate degree, which would have two benefits: first, it would enable the state and enterprises to raise funds, and second, it would absorb some of the surplus purchasing power in private hands. This would reduce inflationary pressure on retail prices.

Fourth, we must continue to strengthen establishment of nonstaple food production bases, especially those which produce vegetables, meat, poultry, and eggs. We must do everything in our power to maintain stable prices for nonstaple foods. Because these products are intimately associated with the people's well-being, price hikes for these products would have a great impact upon overall price levels, the public mood, and upon the people's economic ability to absorb higher prices. Production of these products fluctuates rather significantly. Vegetable production is especially subject to the vagaries of weather, so we must be ever vigilant regarding the production and supply of nonstaple foods. With respect to production, we should establish vegetable protection bases, as well as production bases for meat, poultry, eggs, aquatic products, and fruit. We must convert autarkic and semi-autarkic small-scale production into socialized production oriented toward the market. We must change the small peasant economy into an economy of scale, and make it more scientific. With respect to the circulation link, we should establish a sound market mechanism. The law of value must play its role within the context of a socialist planned economy and a market economy, so it can correctly guide production and reduce fluctuations. At the same time, we should establish a price regulation fund for nonstaple foods, using economic methods to stabilize these prices.

#### **Markets Show New Development, Maturity**

*OW1409134892 Beijing XINHUA in English  
1322 GMT 14 Sep 92*

[Text] Beijing, September 14 (XINHUA)—The markets in China have developed to a considerable degree and are on their way to maturity.

According to China's State Commission for Restructuring the Economy, the three-tier grain markets at the central, regional and primary levels have been formed. Urban and rural fairs are beginning to develop toward standardization. The markets for capital goods, money, technology, real estate, labor service and information known economically as production factor markets are developing in full force while wholesale markets, futures markets and stock markets are beginning to appear. The markets for industrial property trading and for the auctioning of public property are being tried out. All these have provided an increasingly better environment for commodity flow and competition among enterprises.

But before China introduced the policy of reform and opening to the outside world, markets were virtually nonexistent and the economy was a product economy, with the industrial and agricultural products, especially capital goods, allocated by the state instead of being sold on the market.

The notion of markets and making China's economy a market economy, a term which Chinese economists used to avoid for fear of jeopardizing the socialist planned economy, has appeared only in recent years, especially after Deng Xiaoping's southern China tour, when many

prominent economists who remained silent for long began to urge the development of the markets, saying that the time is ripe for developing the market economy.

Now all places are pursuing the development of markets and the slogan "marching toward the markets and throwing the enterprises into the markets" is becoming louder.

According to reports from various places, about two-thirds of the provinces and cities have issued documents to urge the acceleration of the development of various types of markets. Some provinces and regions have taken the initiative to establish a number of provincial level and trans-regional markets for agricultural and sideline production, industrial goods and capital goods.

The economically developed Suzhou-Wuxi-Changzhou area in eastern China has established more than 1,200 specialized markets, with an annual total turnover reaching 15 billion yuan.

The largest industrial city of Shanghai has granted full autonomy to all its commercial establishments and established a number of joint venture commercial enterprises which used to be banned.

Following the establishment of China's first nonferrous metal market in Shenzhen, Shanghai has opened other metal markets for both spot and futures transactions.

Besides, markets for small commodities for daily use have been mushrooming in all the large, medium-sized and small cities and the rural areas and some have become nationally known goods collection and distribution centers.

The capital markets, including money, securities and stocks are developing with full momentum. The total volume of bonds and securities has reached 80 billion yuan annually.

But the fastest developing are the technology markets. The volume of transactions involving technology development, technology transfer, technology consulting service and technical services and other intellectual products has risen rapidly. The total volume is expected to reach 10 billion yuan by the end of this year.

To make way for the full development of all types of markets, the State Commission for Restructuring the Economy is studying ways to abolish all the regulations and policies that are exclusive, discriminative or monopolistic in nature and knock down all the regional and departmental barriers to pave the way for the establishment of an open and unified national market.

### Materials Minister on Circulation Reform, Markets

92CE0602A Chongqing GAIGE [REFORM] in Chinese  
No 4, 20 Jul 92 pp 12-16

[Article by Liu Suinian (2692 7151 1628): "Accelerate Circulation Reform and Speed Up the Process of Converting to the Market Economy"]

[Text] According to a recent party Central Committee and State Council decision, we must seize the opportunity before us, accelerate the pace of reform and opening up, and concentrate our efforts on economic construction. This is a brilliant decision at a critical time. A very important task before us as we diligently carry out this decision is to accelerate circulation reform and speed up the process of converting to the market economy.

**1. The market is the unification of macroeconomic reform and microeconomic reform and is a prerequisite to the normal functioning of the new system of planned commodity economy.**

The Third Plenary Session of the 11th party Central Committee made the decision to shift the focus of the party's work onto economic construction and to restructure the old systems which no longer promote the development of the productive forces. Subsequently, it also made the historical decision that the goal of economic reform was to develop a planned commodity economy. The development of a planned commodity economy is a brand new assignment not only to the development of socialism with Chinese characteristics but also to the international communist movement. Both from the theoretical and practical perspectives, there are many important issues to be explored and resolved. Looking back at our reform practices over the last few years, no doubt a very striking problem is how to assess the role of circulation reform, market construction, and conversion to the market economy as we develop a new system of planned commodity economy and how to handle the relationship between market construction, macroeconomic reform, and microeconomic reform. Overall, when it comes to solving this problem, we are behind in practice and even further behind in theory.

In terms of practice, so far we still have not come up with the proper market conditions to enliven enterprises. In particular, when state-run enterprises run into problems, they still look to the mayor instead of the market for solutions. Nor do we have the necessary market conditions to facilitate macroeconomic regulation and control. In a certain sense, reform has not escaped the cycle where "decontrol means chaos and management means rigid control." Even worse is that before reform, China's circulation sector was lagging far behind the world's advanced standards, and today, despite reform and development, it clearly is still a weak link that is hindering our economic development. It is obstructing the normal functioning of the economy and is keeping enterprises and the national economy from becoming more efficient.

In terms of theory, we still do not correctly understand that China's socialist system is built on the foundation of grossly underdeveloped productive forces and commodity economy and that our conversion to the commercial system, monetary system, and market system has been slow, and these are the unique features that distinguish China's economic reform from the other more well-developed nations. To implement reform under these conditions, we must give top priority to circulation reform, market construction, and conversion to the market economy. It is for this reason that even though we have correctly separated our economic reforms into three parts—enterprise reform, market reform, and macroeconomic reform—and have come up with the theory of letting "the state regulate and control the market and the market guide enterprises," many people still do not look objectively at the important role of circulation reform, market construction, and the market economy. Whenever people talk about reform, they tend to emphasize either enlivening the economy at the micro level or stepping up regulation and control at the macro level. Whenever they talk about enlivening enterprises, they often mean industry, communications, and the manufacturing enterprises and not the circulation enterprises. Whenever they talk about price reform, they only mean decontrolling and readjusting prices and not market construction, development, and organization. Whenever they talk about stepping up regulation and control at the macroeconomic level, they always limit themselves to the financial, banking, and planning sectors, and they exclude the circulation sector.

There are many reasons why China's circulation reform, market construction, and conversion to the market economy are lagging behind both in practice and in theory. In my opinion the following are the three main reasons:

One, all along, many people have been afflicted with a fairly serious case of "marketphobia." Economically, they see too little of the positive role of the market and too much of its negative role. Politically, they equate the commodity economy with capitalism and so they dare not develop the market. In a speech delivered during his tour of South China, Comrade Xiaoping correctly explained that market economy is not the same as capitalism and that both planning and the market are means to regulate the economy. That speech has taught us a great deal. It has ended a long-time ideological dilemma. It is very important at this time for us to sum up our experiences over the years and to understand better, and in an objective way, the market's role in the development of the planned commodity economy and in the promotion of reform and opening up. Gathering from the experiences of other nations and looking at China's own positive and negative experiences over the last several decades, the market is the hub of the commodity economy. If we want to have a commodity economy, we cannot do without a market.

Two, the tendency to "stress production and slight circulation" is fairly prevalent in China. Historically,

China has a tradition of "emphasizing agriculture and suppressing commerce." The people have always been very conscious of the small-scale peasant economy. After the founding of the PRC, we neither followed the Marxist theories properly nor complied with the new trend of technological revolution that erupted after World War II to correctly recognize the important function of circulation in a modern commodity economy and in social development. Therefore, both in the determination of economic development strategies and in the structuring of the economy, we failed to give full play to the function and the potential of circulation. Since the Third Plenary Session of the 11th party Central Committee, things have improved, but they have not changed fundamentally. China hopes to become relatively well-off economically by the year 2000, and using the world's average standard for measurement, where we lag behind today is not in agriculture or industry but in trade and other tertiary industries. The experiences of modernization in other countries have proved again and again that without accelerated and long-term development of the tertiary industry, we cannot have a modern commodity economy nor can we attain overall quality and efficiency in the national economy.

Three, we are in dire need of the knowledge, experience, and trained people to develop markets for the modern commodity economy and are in even greater need of a proper set of strategies to develop market and circulation as we change our product economy into a commodity economy. Since reform and opening up, we have emphasized price reform and enterprise reform. This was important in the early days of reform when we had to remove the shackles of the old system as quickly as possible. But after price reform and enterprise reform reached a certain stage, we still did not emphasize circulation reform and market construction in a timely fashion. This has prevented price reform and enterprise reform from making further progress and has created serious confusion as we stubbornly move forward. The reason is that we do not understand that behind price and enterprise reform there is a more deep-seated problem of circulation reform and market construction. It is easy for those who are used to the small-scale peasant economy and the product economy to equate price decontrol with the emergence of markets. If we take a look at the history of development of the modern commodity economy, we will realize that while the producers of small goods have always been free to set their own prices, the independence and separation of specialized circulation organizations, the creation of large-scale commodity gathering and distribution centers, and the development and perfection of modern wholesale markets and futures markets and exchanges often take several decades or even a century. Thus, while it is a real challenge to make the transition from planned prices to market-set prices and decontrol prices, to develop circulation and nurture markets is a even more difficult, more challenging task.

For the next step, if we want to accelerate the development of the new system of planned commodity

economy, we must make every effort to smooth the relationship between market development and macroeconomic reform and microeconomic reform and we must vigorously accelerate circulation reform, market construction, and conversion to the market economy; otherwise it will be difficult for our reform to succeed. The next reform step involves the market in more than one way; the market is our key. For example, we must open up even more to the outside world and forge even closer economic ties with the rest of the world; we must implement further reform of state-run enterprises and change enterprises' management mechanisms; we must preserve the superior and eliminate the inferior enterprises and optimize the product-mix and enterprise structure; we must improve enterprise efficiency and the efficiency of the whole economy; we want to develop a new macroeconomic regulation and control system that emphasizes indirect regulation and control. Thus, both in terms of theory and in practice, we must first correctly understand that the market is the unification of macroeconomic reform and microeconomic reform; it is a prerequisite to the normal functioning of the new system of planned commodity economy.

**2. In speeding up the process of converting to the market economy, the emphasis should be on accelerating circulation reform and on achieving socialized circulation.**

Based on foreign and Chinese experiences and taking into consideration the conditions before us today, to promote the conversion to the market economy, we must put the emphasis on accelerating circulation reform to achieve socialized circulation. There are two reasons why we should look at the issue from this perspective:

On the one hand, if we look at the progress of reform and opening up since the Third Plenary Session of the 11th party Central Committee, China's reform has been very uneven. Market reform lags far behind price reform and enterprise reform. Take the production and circulation of capital goods for example. Today's production and circulation enterprises are already fairly autonomous. Most of them are planning their production and circulation according to market demands and are making profit their major goal. In 1991, state planned circulation accounted for only 26.9 percent of the nation's production of 16 main products, including steel materials, nonferrous metals, cement, and lumber. The price of most materials has also been decontrolled. But even though price reform and enterprise reform are making great strides and market construction has also begun, they are far from meeting the needs of the development of the commodity economy. For example, in the construction of "tangible markets," we not only lack quantity but the quality of what we have is poor and we still need to work on the wholesale markets and futures markets. The problem is even more serious with regard to the "invisible markets." Before, enterprises' production management followed a vertical line drawn from the top down. Now that that relationship has ended, enterprises should have promptly forged lateral ties that meet the needs of the development of the commodity

economy, especially in terms of raw material supply and product sales. But our reforms happen to fall short exactly in this area, and so enterprise production cost and circulation cost have remained sky high. For this reason, for our next reform step, we must vigorously speed up the process of converting to the market economy. We must put accelerating circulation reform and achieving socialized circulation first and bring our market reform up to speed as soon as possible.

On the other hand, if we look at the localities where the economy has improved the most in the last few years, we will notice that they are localities that have enlivened circulation, emphasized market construction, and have worked hard on developing the circulation industry. In these localities, once there is a market, the economy quickly develops and a picture of prosperity where "one segment of the market enlivens one segment of the economy and brings prosperity to one segment of the people" emerges. If we look at the economic development in other parts of the world, as science and technology develop in leaps and bounds, as production scale continues to expand, as transportation and communications continue to modernize, as the living standard rises and life becomes richer and more colorful, and as unprecedented international economic cooperations develop, we must update our Marxist-era knowledge of the role of circulation. In a modern commodity economy, the function of circulation is no longer limited to matching production and demand, to the realization and utilization of value, or to the achievement of commodity and capital circulation. More important, in some ways and at some stages, circulation, as an independent industry, often plays a decisive role in the improvement of economic quality and in economic development. It plays a unique role in promoting the optimal allocation of domestic and even international resources, in spreading new technologies, accelerating capital circulation, and increasing society's wealth. Thus, for our next reform step, we must make resolutely put the emphasis on circulation and give priority to tapping circulation's latent potential.

To accelerate circulation reform and achieve socialized circulation, first we must work hard on the following areas: (1) We must get rid of the regional circulation blockades. This means that on the one hand, besides promptly changing the present financial system of "eating out of separate pots" and implementing a classified tax system, we must meet the needs of the development of the commodity economy and the development of a national unified market to redefine the local governments' economic functions and uproot local protectionism by eliminating its economic benefits. On the other hand, we must study and readjust our regional economic development strategy, ease the conflicts in economic development that pit the east against the west and the north against the south, and we must promote the formation of a national unified market. (2) We must change the setup under which the circulation sector is carved up by materials, commerce, and foreign trade.

We should have one dominant industry but permit comprehensive management, and we should advocate trans-industry alliances and promote the development of a great national, unified, open socialist market. We are already trying something new in this area. Last year the Ministry of Materials, Ministry of Commerce, and MOFERT joined together to set up the China Industrial Development Investment Company in Nakhodka, Russia. It combines domestic and foreign trade into one and handles not only capital goods but also means of subsistence; it not only has enlivened circulation but has also enhanced our ability to compete in the international markets. (3) We must break up the closed, self-serving circulation system where the manufacturing enterprises and administrative departments are either "big and complete" or "small but complete." Enterprises must pay attention to the market, and their supply, production, and sales must fit together, but this does not mean that they must handle their own supply and sales, because this violates society's principle of division of labor and will only exacerbate the situation where every level and every trade tries to be self-contained and self-sufficient. This not only will prevent society from improving its economic efficiency but will also strengthen departmental separatism and rigid vertical control, and in turn, it will prevent the government from playing a new role and prevent enterprises from orienting toward the market. Thus we must develop a socialized great circulation and take full advantage of the specialized circulation enterprises' good connections, their ability to obtain information, and their vast network and provide the manufacturing enterprises with fine service and develop markets for their products. In this way, we can economize on circulation funds and expenses, accelerate fund circulation, and improve circulation efficiency, and we will also free the manufacturing enterprises from their tedious supply and sales tasks so that they can concentrate on production, strive to improve their production techniques, and improve product quality and production efficiency, and eventually we can bring about the coordinated development of the circulation and the production sectors in the socialization process.

Just as socialized great production needs socialized great circulation, to achieve socialized circulation, we must make socialized production our basis. If we cannot free the manufacturing enterprises from the vertical and lateral administrative controls, it will be impossible to achieve socialized great production or socialized great circulation. The key is to orient enterprises toward the market. On this issue, we must further liberate our thinking and pay serious attention to the following three areas: (1) As much as possible we should reduce the scope of mandatory planned allocation of materials and change in-kind planned allocation into value allocation. Experiences abroad and our own practice over the last few years prove that even without mandatory planning it is still possible to undertake large projects and guarantee the people's basic needs. The question lies in whether we have the resources and whether we can balance the

resources and the money supply. If we look at things from the point of the law of development of the commodity economy and weigh the pros and cons, it is more economical, more reasonable, and more efficient to guarantee the key projects with money than with in-kind goods. This is historical progress. (2) We must accelerate the pace of price decontrol. Experience shows that the "double-track pricing system" has more disadvantages than advantages. So we can boldly consider decontrolling all prices and let the market set the price of all commodities except for the few important ones that have an impact on the national economy and the people's livelihood. In the early stage after we decontrol prices, we may see prices surge, but they will drop back soon. Price decontrol is not a fundamental cause of inflation. The basic cause of inflation is excess money supply. So long as we control the money supply, decontrolling prices will not be very risky. (3) We must abide by the principle of streamlining, high efficiency, and separation of government and enterprises and downsize government organs and change their roles. The multipurpose economic departments should be small but capable; the departments in charge of industries should be downsized. The economic aspects of the state's administration of state-run enterprises consist of preserving and increasing the value of state-owned assets; choosing good managers; separating enterprises' ownership rights and management rights; reducing or even eliminating the government departments' direct control of enterprise supply, production, and sales activities; and giving play to the state's role in providing overall guidance, maintaining equilibrium, defining the policy direction, and promoting technological progress.

**3. Only by developing modernized circulation, accelerating market construction, and improving macroeconomic regulation and control can we successfully speed up the process of converting to the market economy.**

Speeding up the process of converting to the market economy not only involves reform and engaging in socialized great circulation but also developing modernized circulation, accelerating market construction, and improving macroeconomic regulation and control of the market. In a certain sense, this last issue is the most difficult and will take the longest time to resolve; therefore we must spend more effort on it. Taking into consideration China's current situation, to solve this problem we must work hard on the following areas:

One, we must strengthen the construction of circulation organizations and facilities and make the circulation sector more modern. To succeed in socializing the circulation sector, we must accelerate the process of modernizing the circulation sector. Socialization and modernization of circulation are two processes that complement each other and promote each other. The progress of socialization of circulation to a large extent is determined by the level of modernization. If the specialized circulation organs lack modern circulation techniques, facilities, funds, and information, they will not be able to give play to the superiority of socialized circulation.

Thus, as we promote the socialization of circulation, we must also strive to strengthen the circulation enterprises, build more circulation facilities, increase their funding, raise their technical management standards, and increase the level of mechanization and automation in different circulation links. We must gradually make circulation more standardized, uniform, and systematic; we must modernize information and organizational management and vigorously develop the methods of ordering goods via communications, filling and delivering orders for materials, delivering cement in bulk, container shipping and other modern commodity and material circulation methods, and through the circulation enterprises' fine services, we can concentrate the scattered means of circulation and eventually set up a modernized and socialized circulation system that is highly efficient and smooth, and one which we can regulate and control.

Two, we must pick up the pace of market construction on several fronts. The most urgent tasks right now are, (1) to set up some stable markets so that we can put circulation on an orderly track to facilitate open, fair, and equitable exchange. Last year we installed fixed locations for placing orders specifically for nonferrous metals and lumber and set up permanent ordering centers, and we opened a nonferrous metals exchange in Shenzhen. These have all proved very successful. This year we will further promote this reform. Besides creating a high-standard, large-scale nonferrous metal exchange in Shanghai, one of the future economic centers of the Far East, we will also make a decision on setting up wholesale markets for such important commodities as coal, steel materials, building materials, machinery and electrical products, farm machinery, automobiles, chemical products, and rubber. These will form a state-class, regional, third-level capital goods wholesale network centered in the cities. The wholesale markets should eventually develop into futures market to link production and demand between the large- and medium-sized state-run enterprises and to provide multiple services. The specialized circulation department should play the dominant role in the planning, organization, and management of market exchange, but the manufacturing sector and the local governments should also take part and make it a joint effort. (2) We should speed up the promulgation and perfection of market rules and regulations such as "Market Law," "Fair Trade Law," and "Antitrust Law" to ensure fair competition among enterprises, prevent the emergence of monopoly, and gradually put market exchange and market management onto a standardized, legalized track. We must draw a clear line between legal and illegal exchange and curb today's practice of treating all activities that are actually in line with the principles of the commodity economy—such as the accounting method of combining profits and losses, future purchases and sales, wholesale-retail price disparities dictated by the market, and normal commodity circulation activities which include the transfer of contracts—as illegal and conducting endless investigations. This approach will only ruin the economy. (3)

We must train qualified personnel. Not only must we train many specialized personnel who can work in modern wholesale markets and futures markets but we must also make the economic management cadres and entrepreneurs more knowledgeable and conscious about today's market. This should be the focal point of our market construction effort. Only in this way can we develop a mature market.

Three, we must make improving macroeconomic regulation and control of the market an important part of our effort to accelerate the process of converting to the market economy. If market mechanisms are to play a positive role, they must have a stable macroeconomic environment. This means society's total supply and total demand must be more or less balanced and the economic structure must be more or less reasonable; otherwise there can only be market disorder. However this is a problem enterprises cannot solve by themselves. We must rely on state plans, rely on the state's effecting stronger macroeconomic guidance and regulation and control over the economy. Indeed this is vital to the commodity economy's healthy development. In view of the current development of the commodity economy in China, if we want to step up macroeconomic regulation and control of the market, we must first solve the following problems: (1) We must build a stronger information system and use more modern means of obtaining information, so that we can be sure that our macroeconomic decision-making and planning are scientific and correct and that we can help enterprises make fewer big mistakes in their management activities. (2) We must set up a macroeconomic regulation and control system consisting of different economic levers and means of management and supervision such as planning, materials, foreign trade, prices, credit, taxation, statistics, and industry and business management to make our macroeconomic regulation and control more authoritative and effective, so that we can promptly solve the difficult-to-coordinate problems between different economic sectors. (3) We must learn to master the comprehensive use of different economic measures, including prices, taxation, interest rates, exchange rates, and subsidies. We use these economic measures to help us achieve our macroeconomic goals, not to prove that whoever ranks higher gets to call the shots; they should not become the means for the departments or localities to make a profit. (4) We must support and strengthen the main circulation channels. Circulation is the key link that enables us to achieve our economic development plans and put our economic decisions into effect and give play to the market's regulation role. Therefore, some conflicts in the national economic development can only be solved in the circulation sector. Practice proves that circulation will be sluggish without multiple channels and circulation will be unstable without one main channel. The state-run circulation enterprises are the main channel. The state should give them even more support than before to give full play to their ability to stabilize the economy, regulate supply and demand, and keep prices down. Of course, the many different channels and the main channel that is

made up of state-run enterprises are competing on equal footing in the circulation sector, and it all comes down to the quality of their services and whether they can keep their circulation cost below society's average cost. If they cannot compete on those basis, they will be eliminated. Thus if the state-run circulation enterprises truly are to function as the main channel, they must accelerate reform, improve management, and strengthen lateral ties—especially ties with the financial industry and industrial enterprises. They must become stronger and modernized. Relying on their monopolistic status or government protection to uphold their role as the main channel is lifeless. It does meet the needs of the development of the commodity economy, and it will not last.

### Roundup of Symposium on Developing Tertiary Industry

92CE0635A Beijing GUANLI SHIJIE  
[MANAGEMENT WORLD] in Chinese  
No 3, 24 May 92 pp 47-50

[Report by Shen Bonian, Lu Jian, Chen Yongjie and Fang Shou: "Summary of Discussions at the Symposium on Policies for Developing the Tertiary Industry in China"]

[Text] "The Symposium on Policies for Developing the Tertiary Industry in China," jointly sponsored by the State Council's Research Office, the Comprehensive Department of the State Council's General Office and the Center for Evaluating Chinese Enterprises of the journal GUANLI SHIJIE, was held in Beijing on 17-19 March 1992. The participants mainly came from concerned departments of the State Council, the best in their respective sectors among the 500 largest service industry enterprises in China, and some research institutes.

Leaders of the State Council's Research Office, the State Council's Development Research Center, the State Council's Production Office, the State Planning Commission, the Railways Ministry, the Communications Ministry, the Materials Ministry, the Commerce Ministry, the Posts and Telecommunications Ministry, the State Statistical Bureau, the National Tourism Administration, and the State Information and Publications Agency attended the symposium.

The symposium focused on the demand made by the party Central Committee and the State Council to accelerate reform and opening up, and taking into account the domestic and international economic situations, the participants summed up the experience in the development of the tertiary industry in China, analyzed existing problems and their causes, explored ways of continuing reform and accelerating the development of the tertiary industry, and made many constructive suggestions. After warm discussions, the participants espoused the following opinions:

1. The three-way classification of economic sectors is an important achievement of reform and opening up. The tertiary industry is the catchall name for all the economic

sectors outside the realm of the primary industry (including forestry, animal husbandry and fishery) and the secondary industry sectors as well as the construction industry. There are many trades in the tertiary industry that can be divided into two major sectors of circulation and service, on the basis of their respective roles in the national economy. More specifically, they can be divided into four categories: One category is the circulation business; another category is the business providing services for production and daily life; the third category is the business providing services for the improvement of scientific and cultural standards, and quality of life; and the fourth category is the business providing public services for society. In China, the three-way classification of economic sectors was an important achievement of reform and opening up in the 1980s. In the past, China followed Soviet statistical and classification practices, dividing the national economy into the two major sectors of material production and nonmaterial production. The main defect of this classification method is that it denies that service sectors are production sectors and play a role in production, which led to inadequate attention to the development of service sectors in practical work, resulting in the persistent backward state of the tertiary industry in China, and constrained the integral development of the Chinese economy, and raising living standards. Against the background of all-out efforts of economic reform and opening up in the mid-1980s, China, for the first time, clearly divided the economy into three major industries, and began to include the added value of the tertiary industry in the gross national product [GNP], so as to correctly reflect its role in the national economy. This indicated that the tertiary industry in China had entered a new stage of development.

2. Since the founding of the PRC, development of the tertiary industry in China has been a tortuous process. After the start of reform and opening up, especially during the Seventh Five-Year Plan period, work in this area began to be given attention, the tertiary industry achieved quicker development, achieving a growth rate higher than that of the GNP. In 1986-1990, in terms of comparable prices, China's GNP grew by 7.8 percent annually, while the tertiary industry grew by 8.7 percent annually. The tertiary industry's share of GNP increased from 24.8 percent in 1985 to 27.2 percent in 1990. The tertiary industry's share of the entire working population also increased from 16.7 percent in 1985 to 18.6 percent in 1990.

3. In recent years the tertiary industry has achieved a rather high growth rate in China, but from an overall perspective, is still in a rather backward state. The main signs are: First, the share of the tertiary industry in the national economy remains small. In 1990, the ratio between the primary, secondary and tertiary industries' shares of GNP was 27.5:45.3:27.2, and the ratio with regard to the number of workers was 60:21.4:18.6. The tertiary industry's share in China is not only far smaller than in the developed countries, but also smaller than

the average for developing countries. Second, the industrial structure is irrational: The production service system is underdeveloped, with transportation, materials supply, and financial circulation in a backward state; traditional sectors (such as commerce) has a large share, over 60 percent in terms of the GNP and the total number of workers; the development of the newly emerging industries such as information, consulting business, real estate, advertisement, and technical service has been slow; and work in the area of science, technology and education is far from being able to keep up with needs of the economic development. Third, the overall market system containing the consumer goods market, production means market, financial market, trained personnel market, labor market, technology market, information and consulting market, and real estate market is underdeveloped, and management and standardization are inadequate. Fourth, the socialized comprehensive service system and the social security system are underdeveloped. Fifth, development of the tertiary industry is uneven across regions.

4. The main reasons for the backwardness of the tertiary industry are: First, there were errors in understanding and in theoretical directions. For a long period of time, under the influence of views based on product economy, emphasis was given to production, while inadequate attention was given to circulation and service. The tertiary industry's production nature and commercial nature were not recognized, the tertiary industry's important role in providing accumulation and creating wealth was overlooked, and the state treated the tertiary industry as only of secondary importance in economic management. Second, there was a lack of policy support, and especially there are too many policy restrictions and administrative constraints on the social service sectors and on some newly emerging sectors of the tertiary industry, resulting in the failure of those sectors to become fully developed. Third, in terms of administration and regulation, various local and sectoral authorities of various levels pursue their own policies, leading to the situation of multiple sources of authority and vertical and horizontal compartmentalization. Local and sectoral authorities pursue policies of monopoly and protectionism, and restrict others from developing the tertiary industry. Fourth, some sectors are considered purely welfare projects, and totally depend on the support of fiscal allocations. Sometimes expenditures are greater than revenues; sometimes there are only expenditures but no revenues. As a result, those sectors cannot achieve sustained development. Fifth, many government institutions, social organizations and public institutions are run as if those units were separate systems that are either "large and complete" or "small and complete" in the sense that those units can, by themselves, provide all the services needed and carry out all the necessary management activities. All this has hampered development of the tertiary industry.

5. At the present time and throughout the 1990s, speeding up the development of the tertiary industry is of great importance.

First, the accelerated development of the tertiary industry can effectively push the industrialization and modernization of the national economy. China is faced with the double task of industrialization and modernization in the development of its national economy. Historical experience has proven that in the process of industrialization the emergence and rapid development of the tertiary industry is the result of industrialization as well as an important factor pushing industrialization. Moreover, the development of the newly emerging industries symbolized by the use of electronics and information foreruns modernization, and brings with it tremendous changes in the structure of social productive force, thereby constituting, itself, a basic component of modernization. To advance the industrialization and modernization of our economy, it is necessary to pursue quantitative growth of the economy, but it is even more necessary to focus on the improvement of quality; accelerating the development of the tertiary industry is just an effective way of achieving this objective.

Second, accelerating development of the tertiary industry can effectively improve people's living standards, and improve the quality of life. At the time when the problem of food and clothing has been basically solved for our people who are now advancing towards the goal of a comfortable life, there is emerging a trend of diversification in people's consumption needs, and the consumption structure is expanding from one based on subsistence materials to one also based on development materials and luxury materials. In view of this change, development of the tertiary industry can ensure the provision of better, more diversified services for society, so as to meet people's multi-layered consumption needs, thereby improving the quality of life.

Third, accelerating development of the tertiary industry can effectively increase employment opportunities. Presently, the number of surplus workers in the public-owned industrial enterprises nationwide is about 10 million, representing one-fourth of the total number of workers. There are 100 million surplus personnel in the rural labor force. Most trades of the tertiary industry are labor-intensive in nature, and thus can absorb more labor at low cost. Therefore, with the raising of the labor productivity in the primary and secondary industries, solution of the employment problem for the surplus rural and urban labor force and the labor force yet to come has to depend on the extensive development of the tertiary industry.

Fourth, accelerating development of the tertiary industry is conducive to further reforms in a whole series of areas such as those of the employment system, the wage and distribution system, the social security system, and the price system. At the same time, it can also create better conditions for expanding the opening to the outside world, and create a socioeconomic environment more attractive in terms of exchanges with the outside world.

Fifth, accelerating development of the tertiary industry is conducive to the advancement of the construction of

the socialist spiritual civilization. The development of such tertiary-industry sectors as education, scientific research, culture and arts, radio, motion pictures and television, news, health, and sports can effectively improve people's cultural standards, moral standards and mental outlook, thereby contributing to the construction of the socialist spiritual civilization.

6. To accelerate the growth and development of the tertiary industry, it is necessary to further reform, and to perfect all relevant policies:

First, it is necessary to further change views to fully grasp the role and significance of development of the tertiary industry with regard to the modernization of the national economy as a whole. Especially, it is necessary to give great emphasis to the issue of growth rate of the tertiary industry. According to the Eighth Five-Year Plan and the 10-Year Development Program, in the next decade the growth rates for the primary, secondary and tertiary industries will respectively be 3.5 percent, 6.5 percent, and 9 percent. By the year 2000, the share of the tertiary industry's output value in GNP will increase from about one-fourth at present to about one-third. In 1991, compared with the year before, GNP grew by 7 percent, agriculture grew by 3 percent, industry grew by 14 percent, but the tertiary industry grew by only 5.3 percent, a rate much lower than required in the Eighth Five-Year Plan. This indicates that we have not given sufficient emphasis to development of the tertiary industry in our work. To change this situation, the authorities concerned and the local governments should also cover the tertiary industry in their planning, and make necessary arrangements in terms of funds, materials and transportation to ensure the achievement of the growth objectives for the tertiary industry.

Second, it is necessary to make necessary adjustments in the internal structure of the tertiary industry, in connection with the adjustments of the industrial structure in terms of relative proportions of the primary, secondary and tertiary industries. While energetically developing such infrastructural sectors as transport, posts, and telecommunications, it is also necessary to give priority to the development of the sectors providing services for production and daily life, including such traditional service sectors as commerce, finance, foreign trade, materials supply, warehousing, retailing, and food catering as well as such newly emerging service sectors as insurance, consulting business, information, tourism, and real estate. Developing these sectors, it is particularly necessary to try to make the development proceed together with the adjustment of the industrial structure and the reform of enterprise structure.

Third, government departments in charge of administration of the tertiary industry businesses should change their functions to ensure true separation of government and enterprise. Formulate sectoral regulatory policies suiting the needs of commodity economy and socialized large-scale production, on the basis of taking account of the different characteristics of the sectors. With regard to

some basic sectors that affect national plans and peoples' life, it is necessary to gradually expand the scope of market regulation, while strengthening macro-level regulation and control. With regard to other sectors, especially the sectors providing services for daily life, it is necessary to gradually move to mainly relying on market regulation. Relevant authorities should adopt an indirect approach in their regulatory activities, so that the enterprises have to face the market and develop amidst competition.

Fourth, it is necessary to raise everyone's enthusiasm for the development of the tertiary industry. It is necessary to uphold the principle of letting state, collective, private and individual enterprises develop together. In this respect, it is necessary to emancipate the mind, and further relax policies. Beside important sectors of national concern, it is necessary to encourage collective, individual and private businesses in ordinary service sectors, and to allow those businesses to expand their area of business. It is necessary to encourage foreign-funded enterprises to participate in the development of the tertiary industry, and provide necessary protection for them. Even in such important sectors as transport, finance, and foreign trade, it is also necessary to introduce competition mechanisms, and break up monopolies.

Fifth, give full play to the regulating role of the law of value, and gradually decontrol and liven up prices in the tertiary industry. Price regulation for the tertiary industry should be based on considerations of the differences between the several categories of sectors. The first category covers those monopolistic sectors of national concern such as civil aviation, railways, posts and telecommunications, finance, and foreign trade. Prices in those sectors are to continue to be set by the state, but it is necessary to make timely price adjustments based on changes in the situations of cost and of supply and demand. The second category covers sectors which mainly serve to satisfy people's consumption needs such as those of housing, transport, food catering, health, medical care. With regard to this category, it is necessary to combine state-set uniform prices with floating prices, with most prices being floating prices. The third category covers those service sectors that depend less on people's consumption and those newly emerging service sectors such as those of repairs, neighborhood services, information, and technology service. For those sectors, there should be complete price decontrol and market regulation.

Sixth, it is necessary to raise the socialization level of the tertiary industry. First, it is necessary to move daily-life service work out of government institutions, public institutions and enterprises, and let relevant businesses do such work to solve the problem of "large and complete" or "small but complete." Second, it is necessary to establish and perfect systems of socialized, comprehensive services in urban and rural areas. In urban areas, it is necessary to form society-wide systems of services for production and life in terms of organization, regulation,

geographical distribution of businesses, and the population served. In rural areas, while energetically promoting integrated services, which link up production, supply and marketing, for agriculture, it is also necessary to promote the socialization of services for the life of peasants.

Seventh, it is necessary to bring the issue of internationalization of the tertiary industry onto the agenda. To develop the tertiary industry in the 1990s, it is imperative to tackle the issue of internationalization; otherwise, it is difficult to achieve modernization. Our efforts should be aimed at: establishing several internationalized cities with the tertiary industry as the pillar; organizing several large enterprise groups or transnational corporations that conduct business in the areas of technology, industry, trade, and finance, and thus be able to grab a share of the world market; and gradually moving towards starting and operating tertiary industry businesses according to international practices.

Eighth, enterprises and institutions of the tertiary industry should speed up reform and opening up, and transform internal mechanisms of operation and management, so as to increase vitality and improve efficiency. Enterprises should truly become independent commodity producers and operators; most welfare institutions and public institutions should gradually become units operated as enterprises are, assume independent responsibility for profit and loss, and self-development. It is necessary to boldly learn from other countries in terms of successful experience and advanced operating and management methods with regard to the tertiary industry to make our tertiary-industry enterprises' and institutions' operating mechanisms meet, as soon as possible, the objective demands of present-day commodity economy and the integrated international and domestic markets.

Ninth, reform the existing employment system, and gradually make plan-based employment provided by the state cover fewer sectors and job-seekers. It is necessary to let enterprises of most tertiary-industry sectors recruit their own workers, and give enterprises even more flexibility in independently handling employment matters. Competent authorities should formulate policies to encourage workers to move to the tertiary industry. It is necessary to break up geographical, sectoral and ownership-based restrictions on the flow of trained personnel and labor force, and encourage the market circulation of trained personnel and labor force across sectoral and ownership-based boundaries.

Tenth, enhance work on the construction of the legal system to provide a good external environment for the development of the tertiary industry. Speed up the making of relevant laws and regulations to provide legal norms governing the conduct of enterprises, sectoral authorities and government agencies. Enterprises should operate in accordance with the law; competent government authorities should conduct administrative work and supervision in accordance with the law. While

enhancing the taxation work with regard to tertiary-industry enterprises, it is also necessary to resolutely prohibit any unit or person to engage in such activities as unlawful fee-charging, unlawful fund-gathering, unlawful levy, and unlawful fine-imposing to provide a good external environment for the development of the tertiary industry, and ensure its healthy development in accordance with the law.

Also at the symposium, a list, the first of its kind produced as the result of an appraisal process, of 500 largest service industry enterprises in China was announced.

China's 500 largest service industry enterprises selected this time are the vanguards of and form the national team for the tertiary industry of China, and are mainly in finance, trade, communications and transport sectors which are important components of the national economy. Those enterprises are playing the backbone role in the process of the development of the tertiary industry and the national economy as a whole.

In terms of the composition of the tertiary industry, China's 500 largest service industry enterprises are mainly in traditional service sectors. Since the start of reform and opening up, the tertiary industry has achieved significant development in China. However, in view of the advanced levels achieved by the developed countries of the world, China's service industry enterprises still have a long way to go, whether in terms of technology and equipment and diversification of service approaches, or in terms of specialization, division of labor and coordination. Some newly emerging industries are just in the starting stage.

In terms of geographical distribution, China's 500 largest service industry enterprises are mostly concentrated in Beijing and the more economically developed coastal regions. Of the 500, Beijing has 107, accounting for 21.4 percent; Guangdong has 60, accounting for 12 percent; such provinces and municipalities as Shanghai, Liaoning, Jiangsu and Tianjin, in their turn, account for the next largest numbers of those enterprises respectively.

The result of the appraisal provides a reliable source of reference in relation to promoting the coordinated development of the tertiary industry and the primary and secondary industries, in relation to the adjustment of the industrial structure of the entire national economy and the organizational structure of industries, and in relation to giving greater role to large tertiary industry enterprises in our national economy.

#### **Journal on Structural Reform, Property Rights**

*HK0409003092 Beijing JINGJI GUANLI in Chinese  
No 4, 5 Apr 92 pp 15-18, 33*

[Article by Zhou Shulian (0719 0647 5571): "Economic Structural Reform and Property Rights Theory"]

[Text] The property rights question is a hot question which has attracted attention and generated discussion among economic circles and economists. Some comrades do not endorse the putting forward of the property rights question, holding that this is a concept of Western economics. However, this question was first brought forward through the practice of economic structural reform, and the discussion of this question is a demand of practice. It appears that there is a need to continue discussing this question. Our task is to further liberate our thoughts and uphold the tight combining of Marxism and China's actual situation, so that this discussion can promote economic reform and economic development, and can enrich and develop Marxist property rights theory. This article will discuss several relevant issues.

#### **On Enlivening Medium-Sized and Large State-Owned Enterprises**

For quite some time, everyone has been thinking about how to enliven medium-sized and large state-owned enterprises. Enlivening medium-sized and large state-owned enterprises is intended to ensure that the great majority become vigorous socialist commodity producers and operators. The basic conditions for enterprises to become commodity producers and operators are the implementation of operational autonomy and the assumption of sole responsibility for their own profits and losses. There are many reasons why, in the past, medium-sized and large state-owned enterprises were not vigorous, but a major factor is that enterprises did not decide on their own operations and they were not solely responsible for their own profits and losses.

Through over 10 years of reform, and especially following discussion in recent years, people have now reached a common understanding about the need for medium-sized and large state-owned enterprises to decide on their own operations. Of course, we cannot say that the issue of enterprises deciding on their own operations has already been resolved. Some people still stress that the state must intervene in the operational activities of state-owned enterprises, and that the implementation of the power by which enterprises decide on their own operations requires a period of time. However, governments at all levels have earnestly started to stress and have started work on resolving the issue of enterprises deciding on their own operations. Proof of this is seen in the various opening-up measures such as the "four relaxations" and the "five autonomies" which many areas have put forward.

However, the question of state-owned enterprises taking sole responsibility for their profits and losses has not yet received due attention. According to my understanding, although some areas have adopted measures to urge enterprises to take sole responsibility for their profits and losses, in general they have not given this issue the same degree of attention as that of enterprises determining their own operations. Not only this, but people do not have a uniform opinion on whether or not state-owned enterprises can take sole responsibility for

their own profits and losses. Some people have published papers asserting that state-owned enterprises cannot assume sole responsibility for their own profits and losses.

I believe that, if state-owned enterprises do not assume sole responsibility for their profits and losses, it will be very difficult for the "four relaxations" and "five autonomies" measures to truly enliven the medium-sized and large enterprises. This is because if enterprises do not assume full responsibility for their profits and losses, they will not have strong motivation and will not be affected by pressure. Thus, it will be difficult for them to engage in self-development and self-restraint. At present, there exist widely in state-owned enterprises problems such as poor operational management, distribution being slanted toward individuals, economic performance and investment results not being stressed, and so on. These problems are all linked with the lack of decision-making power of enterprises as well as the fact that enterprises do not assume sole responsibility for profits and losses. If enterprises do not assume sole responsibility for profits and losses, it will be difficult to essentially resolve these problems. If these problems are not resolved, it will also be difficult to resolve some of the deep-level problems of the national economy at present, such as structural dislocation, technological backwardness, poor performance and microeconomic regulation and control difficulties.

If enterprises have the power to decide on their own operations, but do not assume sole responsibility for profits and losses, this will produce even more problems and have even more serious effects than the situation under the traditional system where enterprises do not decide on their own operations and do not assume sole responsibility for their own profits and losses. This is because at such a time, enterprises will have got rid of the government restrictions imposed from outside, but will not have established a self-restraint mechanism. Thus, not only will it be impossible for the enterprise to be truly enlivened, but enterprise activities will become increasingly irrational, leading to loss of control over the entire national economy. The result of this will be that enterprises' power to decide on their own operations will be taken back and the cycle of "relaxation leading to chaos, chaos leading to recovery of control, and recovery of control leading to stagnancy" will continue.

From this we can see that to truly enliven medium-sized and large state enterprises, we need to stress both autonomy in operational decisionmaking and the assumption of sole responsibility for profits and losses. We have now reached the time when we have to put effort into resolving the issue of assumption of sole responsibility for profits and losses by state enterprises.

#### **Enterprises When Assuming Sole Responsibility for Profits and Losses Must Have Their Own Assets**

Resolving the issue of having enterprises assume sole responsibility for profits and losses is quite difficult.

This is because the assumption of sole responsibility for profits and losses by state enterprises requires economic, political, ideological and social conditions and it will be very difficult to create these conditions.

Seen from the economic angle, a necessary condition for state enterprises to assume sole responsibility for profits and losses is that the enterprises must be able to decide on their own operations. Only if enterprises can decide on their own operations can they take responsibility for their own profits and losses. If a state enterprise does not have the power to decide on its own operations, of course it cannot take responsibility for its own profits and losses, and we cannot require of it that it takes responsibility for its own profits and losses. The logic of this is easy to understand. From this we should conclude that if traditional state-run enterprises are to be able to assume sole responsibility for their profits and losses, it is necessary to change their current situation of being state-run, and implement a system where the enterprises are state-owned, but decide on their own operations. If we continue to maintain the situation of the state running the enterprises, that is, where the state operates the enterprise in a unified way, the enterprises will lack the necessary operational autonomy and thus it will be extremely difficult for them to take responsibility for their own profits and losses.

Another necessary condition for state enterprises to take sole responsibility for their own profits and losses is that enterprises must have their own property. Under the traditional system, enterprises do not have their own property and all property which they use belongs to the state. In such a situation only the state can assume sole responsibility for profits and losses and the enterprises certainly cannot assume this responsibility. Some comrades say that at present state enterprises are unable to take sole responsibility for profits and losses. This statement is not without validity, because as yet state enterprises do not have the conditions whereby they can take sole responsibility for profits and losses. That is, they do not have the power to decide on their own operations and they do not have their own property. Thus, of course, they are unable to take sole responsibility for their own profits and losses.

However, I do not agree with the claim that socialist state-owned enterprises are definitely unable to take sole responsibility for their profits and losses. When they have the necessary conditions for taking on sole responsibility for their own profits and losses, socialist state-owned enterprises will be able to take sole responsibility for their own profits and losses. The economic structural reform we are carrying out is precisely intended to create these conditions. Above, it has been noted that only when state enterprises take sole responsibility for their own profits and losses will they be able to become true commodity producers and operators and have full vigor. Thus, although there are very great difficulties in creating these conditions, we must overcome all difficulties

obstructing their creation, as only thus will we be able to deepen reform and strengthen, perfect and develop the socialist system.

Actually, the "Law of the PRC on Industrial Enterprises Owned by the Whole People" has already stressed that state enterprises must have their own property. In the "Enterprises Law," it is stipulated: "The enterprises entrusted by the state with the operation and management of property are granted the right to occupy, use and enforce disciplinary action in relation to the property." "Enterprises with the status of a legal entity shall take up civil responsibility in the operation and management of property entrusted by the state." (Article 2) Occupying is a form of property right and it can be said that the "Enterprises Law" actually recognizes that state enterprises have their own property. For example, the "Enterprises Law" stipulates: "Enterprises shall protect their property and settle any claims and debts in the course of mergers, break-ups and terminations." (Article 20) It also stipulates that enterprises can "declare bankruptcy in accordance with the law." (Article 19) According to the above stipulations, the state-owned enterprises must use the property the state has given to them to operate or manage, or use the property they occupy, to take on the responsibilities of their profits and losses, and when assets do not cover liabilities, to declare bankruptcy. This is state-owned enterprises taking sole responsibility for their profits and losses.

The problem now is that subsequent to the promulgation of the "Enterprises Law," it has not been possible to implement it well and there have been many problems in implementation. In particular, enterprise budgetary restraints have not been strengthened. There are some enterprises which are operating quite well, but which hand up profits which they should not hand up. Meanwhile, some enterprises which do not operate well receive preferential treatment in terms of pricing, credit, taxation and subsidies, and even if the operations of the enterprises go from bad to worse, the enterprise cannot go bankrupt and need not go into bankruptcy. This means that the state property which the enterprise occupies, that is, the property which the state gives to the enterprise to operate and manage, is not clearly differentiated from the other property of the state. Thus, enterprises cannot take sole responsibility for profits and losses.

In order to enable state enterprises to take sole responsibility for profits and losses, in the deepening of reform, it is necessary to resolve the issue of an enterprise property system, and under the precondition of upholding whole-people ownership, ensure that enterprises have their own property. This will not provide the full conditions for enterprises to assume sole responsibility for profits and losses, but it is a necessary condition. This is a major question which the current research on property rights must resolve.

### **The Necessity of Researching the Question of Property Rights**

From its very beginnings, economic structural reform encountered the question of property rights. Subsequently, it continually resolved questions, but also continually put forward new questions which required resolution. Everyone remembers that urban economic structural reform began with the expansion of enterprises' autonomy in terms of operations and management. At that time, it had not been made clear that the ownership rights and operating rights of state-owned enterprises can and should be appropriately separated. The policy implemented was one of state ownership and state operation. How to handle the relationship between state ownership, state operation and expanding the autonomy of enterprises was the property rights question which required resolution at that time. This question was resolved by implementing reform experimental points and gradually expanding these experimental points. On the basis of summing up the experiences of reform practice, on 10 May 1984, the State Council passed the "Provisional Regulations on Further Expanding the Decisionmaking Power of State Enterprises," in which it was required that the decisionmaking powers of enterprises and the specific contents of this decisionmaking power be expanded in 10 respects.

If there was real expansion in these 10 respects, state enterprises would no longer be state-run but would be, to a very great degree, enterprise-run. These measures encountered the new property rights question of whether or not state-owned enterprises have to be state-run. This question was thoroughly resolved in the CPC Central Committee's "Decision on Economic Structural Reform." This "Decision" pointed out: "One of the main reasons why the state exercised excessive and rigid control over enterprises in the past was the fact that the concept of ownership by the whole people was equated with the concept of direct operation of these enterprises by the state. As Marxist theory and the practice of socialism have shown, ownership can be duly separated from the power of operation." The "Decision" also required that state-owned enterprises become socialist commodity producers and operators which decide on their own operations and take sole responsibility for their own profits and losses. This provided clear goals for enterprise reform.

As noted above, if enterprises are to take sole responsibility for their profits and losses, then apart from being able to decide on their own operations, it is also required that enterprises have their own property. How to enable enterprises to have their own property and yet maintain their state-owned nature is another property rights question encountered in economic structural reform and also a problem which has to be resolved in the implementation of the "Decision." As enterprises are referred to as state-owned enterprises, their property naturally belongs to the state, and the traditional view is that property owned by the state cannot become the property of the

enterprise. That is to say, state ownership and enterprises having their own property are two contradictory propositions, and they cannot exist together. However, the implementation of the "Decision" requires that the two exist at the same time, and it is not possible for one to exist and the other to not exist. This is because if the first proposition is established, but the latter is not established, the enterprise cannot take sole responsibility for its own profits and losses. If the second proposition is established and the first is not, the enterprise will no longer be a state-owned enterprise.

The "Law of the PRC on Industrial Enterprises Owned by the Whole People" tries to resolve this contradiction. On the one hand, the "Enterprises Law" points out that the property of the enterprise belongs to the whole people, and the state, in accordance with the principle of separating ownership and operating rights, assigns operations and management to the enterprise. On the other hand, it points out that the enterprises have the right to occupy, use and enforce disciplinary action in respect of the property entrusted to them by the state. This both upholds the state-owned nature of the enterprises and also recognizes that enterprises have their own property. However, there are different understandings of the above-mentioned articles from the "Enterprises Law." Some comrades do not recognize the property which the state entrusts to the enterprise to operate and manage to be the property of the enterprise, and hold that actually at present state-owned enterprises do not have their own property. Thus, this question cannot be said to be resolved.

Some comrades point out that the implementation of the shareholding system in state-owned enterprises is intended to further resolve this question. This is because a limited shareholding company will, as an enterprise, have its own property, and this property will in the end be owned by the shareholders. Some people refer to the former as the enterprise corporate ownership rights and to the latter as ultimate ownership rights. Others call the former economic ownership rights and the latter legal ownership rights. The matter of which terms are best can be the subject of further discussion. After a state enterprise becomes a limited shareholding company, the enterprise has corporate ownership rights or economic ownership rights and it can take sole responsibility for profits and losses. The state, as the shareholder, still has ultimate ownership rights or legal ownership rights, and thus the whole-people ownership nature of the enterprise is maintained.

I endorse the shareholding system as one way of resolving the problem, but of course we can also adopt other methods. The crux here is to firmly separate the property which the state has entrusted to the enterprise to operate and manage from the other property of the state. The enterprise will use the property it occupies to take on responsibility for its profits and losses and, when assets do not meet liabilities, it should be declared bankrupt in accordance with the law. The implementation of other methods should also be carried out in this

way. I also believe that in respect of the property which the state assigns to the enterprise to operate and manage, under the precondition that the state retains ultimate ownership rights or legal ownership rights, it is quite appropriate that the enterprise should have corporate ownership rights or economic ownership rights. In this way, it will be possible to uphold whole-people ownership, so that state ownership rights can be realized, and also possible to ensure that the enterprise has corporate ownership rights, which provides more dependable preconditions by which the enterprise can decide on its own operations and can take responsibility for its own profits and losses.

Deepening reform also involves many other property rights questions which need to be studied. For example, how do we correctly handle the relationship between state ownership rights and government administrative and management rights? Which departments or organs will represent state ownership rights? What will be the responsibilities, rights and obligations of these departments and organs? Should the investment powers of state-owned enterprises belong to the state or to the enterprises? There are many other such questions. These questions all fall within the scope of property rights questions, and they need to be seriously researched.

#### **Upholding and Developing Marxist Property Rights Theory**

Some comrades do not endorse the raising and study of the property rights question. They hold that the putting forward of the property rights question is just copying the property rights theory of bourgeois economics, and that the aim of this is to change the nature of the socialist system of ownership by the whole people, and carry out privatization either openly or slyly. In their view, only bourgeois economics has property rights theory and Marxism does not have such a theory. I believe that this view is erroneous.

In research on the property rights question, there exist differences in respect of stand, viewpoints and methods. Some people copy the property rights theory of bourgeois economics and law and some others try to change the nature of the socialist system of ownership by the whole people to realize privatization. All these practices are erroneous. However, it should be recognized that a greater number of persons study the property rights question from the angle of upholding, perfecting and developing the socialist system. They adopt the socialist stand, take Marxism for guidance, seriously study the problems brought forward in actual life, and uphold and develop Marxist property rights theory. Studying the property rights question is not only a requirement for deepening reform, but also a requirement for upholding and developing Marxism. We certainly cannot consider the putting forward of this question to be copying bourgeois property rights theory and engaging in privatization.

Marxism has its own property rights theory. Marx and Engels carried out systematic analytical research on property rights concepts such as ownership, possession, and use and control rights, as well as their positions, roles, mutual relations and historical evolution in socio-economic development. In particular, they carried out systematic analytical research on the contents, development and changes of capitalist ownership rights. Their outstanding contribution was to study these property rights questions in terms of their linkages with ownership systems, to study them in the light of relations of production and the productive forces, and to study them in the light of the economic base and the superstructure. Thereby, they overcame the idealism and metaphysical tendencies in the study of these questions. After Marx and Engels, Lenin, in the practice of leading the Russian revolution and construction, studied the property rights question and put forward a series of scientific principles. Our party, in the process of leading the new democratic revolution and the socialist revolution, in leading the building of socialism and especially in the process of socialist reform, also encountered and resolved a great number of property rights questions. Relevant party documents reflect rich experiences in this regard and have developed Marxist property rights theory. Marxist property rights theory involves both economics and law. We cannot, when hearing the term property rights theory, assume that it is just a concept in bourgeois economics and law.

Marx's theory also has major guiding significance in resolving the property rights questions we face. Marx said: "Capitalist production itself has brought about the situation whereby management labor walks the streets separated completely from the ownership of capital, whether one's own or other people's." (*Collected Works of Marx and Engels*, Vol 26, Book 3, p 552) This theory that ownership and operating rights can be separated has already become the theoretical foundation on which we have expanded the operational autonomy of state-owned enterprises. Marx's analysis of the relationship between credit capital and industrial capital and his analysis of the relationship between ownership and operating rights in share enterprises also has real guiding significance in resolving the problem of a property system for state-owned enterprises.

Marxism of course cannot provide us with ready-made answers for the questions we face. The resolution of these questions needs serious investigation and research, the carrying out of experiments and the summing up of experiences. We also need to implement the policy of letting a hundred schools of thought contend and develop discussion. In the process of exploring these questions, it will be difficult to avoid diverse opinions appearing. Some of these opinions may be wrong, and thus it will be necessary for deep research and discussion to resolve differences of opinion and attain a common understanding. We should encourage research and discussion, rather than restricting or banning it, and certainly must not lightly raise things to the level of principle and two-line struggle or indiscriminately stick

labels on things. If we restrict or ban study and discussion, not only will we be unable to resolve the problems, but we will be giving up Marxism's position to others.

We must also have an overall understanding and correct attitude to bourgeois property rights theory. Bourgeois property rights theory serves the maintenance and development of the capitalist system, and it is essentially hostile to socialist public ownership. We must have a full understanding of this and maintain a critical attitude. However, bourgeois property rights theory also reflects the experiences of how property rights questions were handled in the process of development of the commodity economy in capitalist society, and it includes some principles which have scientific content. Socialist society must also develop a commodity economy, and it has some common points (as well as basic differences) with the capitalist economy in terms of economic operation. Thus, bourgeois property rights theory also has some lessons and reference value for us in handling questions related to the rights, responsibilities and interests of socialist economic entities. We cannot deny and exclude them completely. Marx drew on the scientific elements of bourgeois classical economics in creating Marxist economics. Under the guidance of Marxism, in respect of bourgeois property rights theory, we should adopt a positive attitude of developing what is useful and discarding what is not, discard the dross, draw in the essence and use it to enrich and develop Marxism.

In a letter written on 25 October 1921 on the question of renting and leasing in agriculture, Lenin noted: "We should study the question of renting and leasing in agriculture. In the past, we did not study this enough." "He who cultivates is he who occupies. The state is the owner and the lessee of the state farm is the cultivator. This person is actually not a lessee and this is not leasing in the original sense. It would be better to say that this is transfer of management rights." "We should study this question in a more detailed and careful way." This letter by Lenin on the property rights question is very enlightening for us in studying the question of property rights of state-owned enterprises. We should, as Lenin said: More completely and more carefully study the property rights question in the socialist economy, including in respect of state-owned enterprises.

#### Journal Views Industrial Structure Problems

HK0409102092 Beijing JINGJI YANJIU in Chinese  
No 4, 20 Apr 92 pp 38-43

[Article by Zhang Liquan (1728 4539 5028) of the Institute of Economics under the State Planning Commission: "A Review of Contradictions in China's Industrial Structure"]

[Text] A representative view of the contradictions in China's industrial structure is: Relying on a highly-centralized planning system and on direct administrative means, accumulated funds were spent mainly on the development of heavy industry during the 30 years

before reform. For this reason, China skipped the stage of development which centered round light industries in its industrialization process. Under the commodity economy, however, the industrial structure must change in accordance with its universal law and this explains the inevitable occurrence of a "make-up stage" for the development of labor-intensive light industry. Judging from the existing industrial structure in China, the next step should be to advance toward a stage for upgrading the industrial structure, which calls for the strengthening of capital-intensive basic industries and infrastructure. On the other hand, the "make-up" stage calls for quicker development of labor-intensive light industry. This creates a contradiction in funds needed for the upgrading of the industrial structure and for the transfer of rural work force. Because of this, we must, through international exchanges, form the following new cyclical relationship: Export labor-intensive products—import capital- and technology-intensive products needed for the development of heavy industry—make heavy industry support the export of labor-intensive products.

The present situation of economic development is as follows: The ratio between light and heavy industries has changed markedly but there is still a large surplus work force in the rural areas (estimated to be about 200 million people) and the problem of "bottleneck" constraints arising from the shortage of infrastructure facilities and heavy industrial and chemical products is becoming increasingly serious. Does this mean that the "make-up stage" of industrialization is a thing of the past? If it is, along what track will China's industrial structure change under the existing factor supply structure? What are the main contradictions? Why is it that against the backdrop of international exchanges, we have yet to see a coordinated development of labor-intensive industries and capital- and technology-intensive industries in our country? These phenomena and problems underline the need for us to understand anew the contradictions in China's industrial structure.

### **I. Process of Change in Industrial Structure and Related Problems**

The factor supply structure and the consumption pattern are basic determinants of the industrial structure. As the reform progresses and the function of the market in allocating resources increases, China's industrial structure changes under these two determining factors. In the early stage of reform, the majority of the work force remained in the realm of agricultural production. The comparative labor productivity of the primary sector was 0.44, only one-sixth that of the secondary and tertiary sectors. This determined the inevitable massive transfer of the agricultural work force to the nonagricultural sector. Readjustments in the relations of income distribution, and the rapid increase in the income of urban and rural inhabitants, led to rapid growth in total consumption and changes in the consumption pattern, thus creating the market demand for the transfer of rural work force. Thus began the process of "make-up" industrialization which was characterized by the development

of labor-intensive light industry. This process occurred between 1979 and 1984. During this period, light industry developed rapidly and the ratio between light and heavy industries underwent marked changes. The ratio between light and heavy industrial output value changed from 43.7:56.3 in 1979 to 47.4:52.6 in 1984. By 1984, salient problems mainly found expressions in two areas. First, under the traditional consumer goods supply structure, it was difficult to further expand consumer demand. For instance, demand for the "old four big items" (bicycles, sewing machines, wrist watches, and radios) had become saturated. Second, there was short supply of certain heavy industrial products. For instance, the production elasticity coefficient of rolled steel dropped from an average of 0.59 in the 1979 to 1983 period to 0.50 in 1984. These facts indicated that relative to the original industrial structure, the "make-up" industrialization process had been completed. In order to further tackle the problem of providing jobs for the surplus work force, it became necessary to rapidly develop the secondary sector as a whole rather than simply relying on the development of light industry. Industrialization should have entered a stage of high-speed growth centered round the development of the heavy and chemical industries. However, the continuous opening of the country to the outside world changed this process. The products of labor-intensive light industry were being steered toward the international market, and through this, links were established with the international production structure. Relying on imported technology, machinery, equipment, and raw materials for the heavy and chemical industries, the upgrading of traditional light industry quickly took place. "Import-fed industries" such as production lines for television sets, refrigerators, and other home electrical appliances, and production lines for daily necessities like canned beverages and western suits, were developed. The new supply structure further opened up the domestic market, and removed the restrictions imposed by the scale of heavy and chemical industries on the further development of light industry. Excessive imports were to some extent responsible for the further expansion of light industry beyond the national industrial structure problems. This process of change in the industrial structure has given rise to the following problems:

1. Serious dislocations between the development of light industry and the development of heavy and chemical industries and the infrastructure at home. Between 1984 and 1990, the total output value of light industry increased by 137.5 percent while the GNP increased by 64.5 percent calculated at comparable prices. Railroad lines opened to traffic only increased by 3.29 percent. Freight volume was up by 34.4 percent; coal output rose 36.9 percent; generated electricity rose 64.8 percent; and steel output rose 52.6 percent. Transport capability, construction of urban public utilities, the level of posts and telecommunications, and the capacity to supply principal heavy industrial and chemical products were all incompatible with the overall level of total demand and total supply.

2. Because of differences in their levels of technology and overall industrial quality, import-fed industries and domestic industries cannot be linked up well and cannot form smooth cyclical relationships in which they mutually promote each other. On the one hand, this caused a strong reliance by import-fed industries on imports. On the other hand, it caused dislocations between these two types of industries and affected the integrated nature of our national industrial system to some extent. Cyclical relationships between various industrial sectors, particularly the cyclical relationship within the secondary sector, were cut off to a certain degree.

3. The massive increase in imports and the development of import-fed industries strengthened the two-tier consumption structure between town and country while widening the domestic markets. Because of this, the gaps between the urban and rural consumption structures, which were narrowing under the traditional consumer goods supply structure, once again widened. Signs of "unduly high levels of spending" began to show, causing dislocations between changes in the consumption structure and changes in the domestic industrial structure problems.

4. The export of labor-intensive products and the import of capital- and technology-intensive products put our international trade in an unfavorable position. The fact that the development of labor-intensive industries was at the same time creating consumption demand at home posed obstacles to mass exports by these industries. This, coupled with structural factors and reasons relating to levels of technology, reduced the competitiveness of these products in international markets. On the other hand, the development of labor-intensive industries required substantial increases in imports, leading to great trade deficits. At the same time, because costs in terms of foreign exchange were rapidly rising and the shortage of foreign exchange was pushing the exchange rate down, we found ourselves in a disadvantageous position in our productive capacity compared with other countries.

From the above analysis, we have come to the following conclusion:

1. The "make-up" stage in China's industrialization ended around the year 1984. What followed was in fact a period of abnormal changes brought about under the combined pressure of employment for the huge surplus work force and excessive imports, when the proportion of light industry became unduly large in the industrial structure problems. The resultant problems tell us that there are internal laws governing changes in the industrial structure problems, and that violation of these laws can only aggravate the contradictions in the industrial structure problems and prolong the process of industrialization.

2. At the present stage, China is still not in a position to practice the large international economic cycle strategy. Our huge working population, particularly the transfer of

agricultural work force away from their own sector, produced a great pressure which propelled the rapid development of labor-intensive light industry. As a corresponding development, technological equipment related to investment in light industry as well as components, parts, and raw materials related to light industrial production, became the hottest items in our domestic demand structure. Thus, imports of these goods inevitably registered the fastest growth. A direct reason why our participation in international exchanges failed to bring about a massive increase in the import of capital- and technology-intensive products necessary for the development of heavy industry was the development direction of our domestic demand, which was determined by given contradictions in development. Only after the stage of industrialization which centers round heavy and chemical industries has begun, would the development direction of domestic demand undergo changes and only then would the import of products related to production and construction in the realm of heavy and chemical industries show substantial increases. However, following changes in the structure of the manufacturing industry during this stage, the export structure will also undergo changes and the proportion of labor-intensive products will decrease. Thus, we must see the domestic industrial structure problems as an integrated whole, particularly when we are looking at the economy of a big country. Our links with foreign industries are also integrative and dynamic. When choosing our development strategy, we must pay great attention to the integrative links of the industrial structure problems as well as their comparability in temporal and spatial terms.

3. Despite the presence of huge employment pressure and the impact of the transfer of the rural work force away from the agricultural sector, we must still arrange to steer the industrialization process toward the stage of the development of capital-intensive industries centered round heavy industry. The reasons are twofold. Contradictions in the domestic industrial structure problems have precluded the further expansion of labor-intensive industries; on the other hand, experience proves that international exchanges cannot help us develop labor-intensive industries. As pointed out in the above analysis, the growing trade deficits and rising costs in terms of foreign exchange resulting from exchanges between labor-intensive products and capital- and technology-intensive products will impose strict restrictions on imports. This way, labor-intensive industries will have difficulty developing links with international production systems. They will find that even their own further development will be restricted.

## **II. Industrial Structure Contradictions; Problems and Difficulties in Operating National Economy**

Since 1984, our basic objective in operating the economy has been to maintain a balance between total demand and total supply. The reason is that the rapid expansion in demand since 1984 has become a prominent problem in the macroeconomy. It is precisely the strong pull of

demand that has brought about the rapid expansion in supply and the growth of the whole national economy at high speed.

Why is it that there has been a rapid expansion in total demand? To understand this, we must analyze the specific process of changes in the industrial structure problems. As pointed out earlier, the process of the further shift toward light industry after 1984 involves the exchange of labor-intensive products for capital- and technology-intensive products in the international market. The fact that we are weak in competitive strength due to differences in the magnitude of added value, and because of structural and other reasons, has produced a great disparity in the ratio of this kind of exchange. Take the imports of television sets for instance. Every set was imported at a cost of about \$200, equivalent to the exchange earnings from the export of 340 m of cotton fabric. Calculated at four persons per family, the purchase of one television set was equivalent to a family's consumption of cotton fabric over a period of nearly eight years (at 1985 per capita consumption level). People's demand for new consumer goods from abroad caused demand for imports to soar and this produced a strong pull, or pressure, on the export of labor-intensive products. Under the pull of huge demand, labor-intensive light industry naturally expanded at an accelerated pace. This in turn generated great demand for investment and production. As analyzed above, the fact that these demands were mainly satisfied through imports further boosted the demand for imports, and at the same time, placed still higher demands on the export of labor-intensive products. In the wake of the development of light industry at home, a large proportion of the rural work force began working in the nonagricultural sector with obvious increases in their income. The development of light industry also promoted the process of urbanization. As large numbers of rural dwellers turned into urban inhabitants, the consumption structure underwent qualitative changes (there is a two-tier consumption structure between town and country) and the level of consumption soared. These were responsible for the further expansion of domestic consumer markets and the further increase in the demand for labor-intensive products.

From the above analysis, we can see that due to the great disparity in the international exchange ratio, every time demand for investment, production, and consumption is satisfied in the expansion of light industry through international exchanges, a greater demand will be placed on light industrial products the next time around. The continuation of this process will cause the gap between the expansion of light industry and the demand for light industrial products to widen, while price raises stemming from the widening gap between supply and demand will further stimulate the expansion of light industry. This is an important reason for the sustained swelling of consumer and investment demands and the widening gap between total demand and total supply since 1984.

The shortage of supply found expression primarily in the shortage of imported goods, which explained the continuous price raises for these goods. This created conditions for the production of import substitutes which were manifest in two ways: First, the use of Chinese-made parts in import-fed industries, and second, the accelerated development of the heavy and chemical industries. The latter is particularly noteworthy. Since 1984, the heavy and energy industries have shown substantial growth as light industry expanded, although the increase is notably smaller in scale compared to that of light industry or total demand and total supply. The growth of the heavy and chemical industries requires much larger investment than is the case with light industry. The scale of construction and investment thus rapidly expanded and the rate of increase in total demand further accelerated. Rapid industrialization and the sharp increase in total demand and total supply boosted the rate of import growth and widened the gap between domestic supply and demand. This found expression primarily in the increase in foreign trade deficits, which caused foreign debts to mount and foreign exchange reserves to plunge. In order to keep foreign debts at an appropriate level and maintain the necessary foreign exchange reserves, it was necessary to keep import growth under control. This quickly aggravated the shortage of basic industrial products. Due to the obvious lack of productive capacity in our basic industries, the price of basic products quickly soared and the production costs of final products rose steadily, giving producers the urge to raise the price of their products. Because consumer demand was mounting at that time, under the push of cost and the pull of demand, the price of consumer goods quickly soared, causing people to anticipate inflation. This further abetted the continuous raises in price level. In this malignant cycle, the trend of price raises continued unabated bringing about commercial speculation. People in the commercial sector started stockpiling commodities. The more prices soared, the more they stockpiled; the more they stockpiled, the more prices soared. This malignant cycle further widened the gap between demand and supply ultimately leading to the need for economic improvement and rectification.

In the process of economic improvement and rectification, control on imports not only restricted the supply of raw materials necessary for the development of the heavy and chemical industries at home, but also restricted the import-fed industries. This prevented the further development of imported products and put a brake on changes in the supply structure, inevitably precluding changes in the domestic consumption structure. When the price level stabilized and panic buying subsided, this pause in the expansion of the domestic consumer market, which was itself caused by the cessation of changes in the consumption structure, immediately asserted itself. A given consumption structure is invariably associated with a given level of total demand and total supply and given industrial structure problems. Since it is quite obvious that China's consumption structure is already too advanced compared with the

level of its economic development, a cessation of changes in the consumption structure is a manifestation of the abovementioned internal links.

The above analysis explains the special features of the macroeconomic movement brought about by the special process of changes in the industrial structure problems, as well as the problems arising therefrom. Based on this analysis, we can say that where the direction of evolution in the readjustment of the industrial structure problems is concerned, starting a stage of industrialization centered round the heavy and chemical industries is the way to seek further economic growth.

Why is it that the industrial structure problems have undergone the abovementioned process of changes? To answer this question, it is necessary to analyze the relations between reform of the economic structure and changes in the industrial structure problems.

### III. Changes in Industrial Structure Problems and Economic Structure Reform

Before reform, the highly-centralized direct planned management provided the institutional guarantee for the formation of an industrial system with heavy industry playing a dominant role. Similarly, economic restructuring is the institutional reason for the tremendous changes in the industrial structure problems.

In the early stage of reform, the state of the industrial structure problems was seriously mismatched with the level of total demand and total supply. Relying on administrative means, we created industrial structure problems with heavy industry playing a dominant role at a low level of total demand and total supply. As a result, the development of production fell out of step with efforts to raise the consumption level and create jobs for the work force. The self-circulation within the heavy industrial sector hampered the normal progress of the industrialization process and seriously affected the increase in total demand and total supply. It was precisely these problems that prompted the need for the economic restructuring.

As the economic system changes, first of all, close links are formed between consumption and production activities. The rapid rise in people's income has brought about rapid changes in their total consumption and in the consumption structure, finding expression in changes in market demand. The attention of market-oriented enterprises is thus drawn to consumer goods industries, and this has led to the rapid development of consumer goods production. Secondly, the expansion in the scale of industry is linked with the transfer of work force between various industrial sectors. With vast differences in comparative labor productivity, once peasants have a fair amount of accumulated funds at their disposal they will immediately shift to a sector that offers a higher income. This finds expression in the rapid rise of township industry.

Moreover, local governments are also striving to increase investment in an effort to solve the labor employment problem. Due to the shortage of funds and the size of the work force seeking jobs in the industrial sector, investment mainly goes to labor-intensive industries, generally light industry. This pushes the development of industrial structure problems toward light industry.

Under the normal economic mechanism, increases in total demand and total supply determine increases in people's income and the level of people's income determines their consumption structure. On the other hand, a given level of total demand and total supply is backed by corresponding industrial structure problems and the supply structure formed under such industrial structure problems has its own corresponding consumption structure. In the readjustment of distribution relations, however, increases in people's cash income became divorced from increases in total demand and total supply and greatly exceeded economic growth. As a result, changes in the consumption structure were no longer constrained by income and were only subject to changes in the supply structure. This created the possibility for an unduly high level of spending. This analysis also suggests that, under existing conditions, if a drastic increase in imports resulted in a new cycle of updating in import-fed industries and new changes in the supply structure, the domestic consumption structure would undergo further changes, the consumer market would once again become overheated, and the problem of the over-development of light industry would continue.

After the over-development of light industry was brought under control, the consumption structure which was kept within bounds by the cessation of changes in the supply structure expressed itself as a strong market demand constraint on light industry. In the meantime, the full-scale launching of infrastructure construction and the development of heavy industry required the concentration of funds. Thus, current contradictions in the industrial structure problems have placed new demands on the economic system. It is high time that development and reform entered a new stage.

### IV. Several Ideas for Resolving Current Contradictions in Industrial Structure Problems

Bearing in mind that further increases in total demand and total supply after halting the over-development of light industry are directly subject to market demand, we must proceed from the expansion of market demand in our efforts to find solutions to contradictions in the industrial structure problems.

The consumer goods market has stopped expanding because the consumption structure has ceased to change and this, in turn, is due to the cessation of changes in the consumer goods supply structure. Thus, the expansion of the consumer goods market can only lead to changes in the consumer goods supply structure. However, as shown in the above analysis, our present consumer goods supply structure is already above the production level of

our industrial system and is only backed by imports. It is only by further expanding imports and increasing their scale that the above goal can be achieved. However, the serious problems arising from the over-development of light industry through this means tell us that we can no longer follow this road. Based on an analysis of our productive capacity, what are the areas that can be opened up in order to bring about further changes in the consumption structure? The only areas where there is still room for development are in housing and transportation, as well as areas like telecommunications, medical care, education, and tourism. This actually calls for the construction of more basic facilities in cities. Housing construction requires support services like water and gas supplies, heating, transportation, telecommunications and commerce. The setting up of new medical centers, schools and other cultural and educational facilities are all aimed at enhancing the urban function and form part of the urban infrastructure. By comparison, our level of urban construction lags greatly behind the level already attained by urban residents in other areas of consumption. However, seen from the special features of production and construction in cities and seen from the characteristics of their mode of supply, changing the appearance of cities is something quite different from changing the situation regarding other consumer goods. In most countries, these form part of the infrastructure and are not regarded as an integral part of the consumer goods market. Thus, our conclusion on expanding residents' consumption structure is to accelerate infrastructural construction (relating to livelihood) rather than to expand the consumer goods market. Actually, our livelihood-related infrastructure is backward but our basic facilities relating to production and circulation are even more backward. For instance, our communications and transport means are seriously out of step with the present level of total demand and total supply. The shortage of transport facilities remained a prominent problem throughout the period of economic improvement and rectification. Related to transportation are telecommunications and energy construction, which are also backward compared to the present economic level. It is precisely this state of affairs in our infrastructure that has restricted further increases in total demand and total supply in our country. Infrastructural construction will generate a huge demand for investment, which will spur the rapid growth of the heavy and chemical industries and promote economic growth as a whole. Thus, from the perspective of market demand, we must increase infrastructural investment which will in turn boost demand for heavy industry, give impetus to the rapid development of the heavy and chemical industries, and lead economic development into the stage where the heavy and chemical industries play a dominant role. In this way, infrastructural construction will become the leading industry in the further transformation of the industrial structure problems.

At present, there are favorable conditions for launching large-scale infrastructural construction but there are also obstacles. The constraints of market demand on light

industry have, to a certain extent, prevented the further tilt of the investment structure toward light industry. This is favorable to readjustment of the investment structure and will increase investment in the infrastructure. However, scattered investment funds and tremendous employment pressure are factors pushing the further tilting of the investment structure toward light industry. This is especially true when responsibility for the use of investment funds is not clearly defined and when departments with over-developed light industry are not eliminated, because market demand will not be able to effectively curb further increases in investment in light industry. This means that there will not be any obvious changes in the investment structure. In the end, the fact that consumption is not subject to income constraints poses a hidden danger for the readjustment of the investment structure in an open economy. This hidden danger refers to the possibility that the over-development of light industry will once again be activated under the push of imports. Further reform of the economic structure is necessary in order to keep residents' income within bounds, make centralized use of investment funds, eliminate some of the over-developed industries through the use of market forces, and clearly define investment responsibilities.

1. Reform state enterprises. In the case of light industry developed through market expansion, parts of it will inevitably be eliminated when the market shrinks. This is a normal manifestation of the ex-post-regulatory role of the market. However, this is not the case in China at the moment. Some of the enterprises which should have been dropped are still protected by the state. In the economic readjustment in the 1960's and the early 1980's, state enterprises which must be dropped were all closed down, suspended, merged with other enterprises, or switched to manufacturing other products. Why is it that state enterprises must now be protected and cannot be closed down, suspended, merged with others, or switched to other lines of production? Since state enterprises cannot be eliminated and since the extensive economic ties between state enterprises and nonstate enterprises have objectively protected large numbers of enterprises not owned by the whole people from elimination by market forces, the constraining force of the market on the expansion of light industry has been greatly weakened. To solve these problems, it is necessary to carry out work in two areas. On the one hand, we must do away with the direct management of these enterprises by the state and let these enterprises truly manage their own affairs. On the other hand, we must clearly define property liabilities. The state can no longer be looked upon as the ultimate bearer of responsibility. Under the present circumstances, we should at least do away with the state-operated mode of management in state enterprises in the light industrial sector, which mainly relies on the market for its development. Only in this way can the state discard the burden which is already beyond its tolerance level. This is also the only way that light industry under market constraints can carry out overall self-readjustment. This way, we can boost

internal competition in this industry, change the operating mechanism of enterprises, and create conditions for this industry to look for new opportunities to develop itself from the production of import substitutes to export-oriented production.

2. Restructure public finances to increase the percentage of state revenue in national income. Compared with light industry, the development of infrastructure and the heavy and chemical industries relies less on the market. In Japan, South Korea, and the developed capitalist countries, the government plays a considerable role in development in these fields. Of course, the form is not always the same. For instance, the state financial departments may directly invest in projects or call up funds. Regardless of the form adopted, the state financial departments need to have considerable funds at their disposal. In these areas, due to their special features as public sectors and natural monopolies, and due to their position as the basis of other industries, intense internal competition and unstable prices will have adverse effects on the economy as a whole. Thus, their market involvement is low and a large proportion is operated by the state. This determines that the state must directly invest in some of these projects. The restructuring of public finances to increase the percentage of state revenue in national income as a whole is the main approach to centralize funds. In the transformation of the industrial structure problems, because light industry is no longer the focus of development, funds accumulated in this sector (which form the main portion of our accumulated funds at present) no longer need to be scattered. The state financial departments should take revenue from this sector as their principal source of finance.

### Current 'Theoretical Hot Points' Analyzed

HK0509012492 Beijing JINGJI RIBAO in Chinese  
25 Jul 92 p 3

["Experts and Scholars Discuss and Analyze Present 'Hot Spots of Theoretical Studies'"]

[Text] Editor's note: In the new situation of deepening reform and opening wider to the outside world, "theoretical hot spots" have emerged one after another in economic circles: Why does China want to pursue a market economy? Will economic growth bring about inflation? Why should stock markets be set up? Will stock trading using money drawn from banks undermine bank credit? To help the reading public understand and ponder these questions, the JINGJI RIBAO Theoretical Department and ZHONGGUO JIDIAN BAO invited several economists and scholars to a symposium not long ago. We publish here excerpts of their speeches. [end editor's note]

Excerpts of the speech by Liu Guoguang [0491 0948 0342], vice president and research fellow of the Chinese Academy of Social Sciences: "Annihilate the Sense of Fear of 'Market Economy'"

Some comrades said: Commodity economy means market economy. They maintained that the advocacy of developing the market economy was just a change of term and did not have any essential significance. In fact, there is a difference between commodity economy and market economy. Commodity economy, which has been long-standing, stresses equal exchange. Its opposite is natural economy and product economy, which are characterized by nonequal exchange. Market economy appeared only after the commodity economy developed to the formation of a unitary market. It stresses that market mechanisms and regulation by market mechanisms are the main mode of disposal of social resources. Its opposite is the traditional planned economic structure, under which regulation by planning is regarded as the main mode of disposal of resources. By urging developing the socialist market economy, the theoretical community meant turning market mechanisms into the main and basic mode of disposal of China's resources.

We should not totally repudiate the previous planned economic structure. It still worked effectively in some specific historical periods, such as the post-war recovery period. If it did not pursue appropriate centralization in those years, China would have been unable to swiftly concentrate social resources to launch the construction of 156 projects in the 1950's, and thus laid a foundation for the development of its economy within a short period of time. Nevertheless, it must be noticed that the main purpose of our economic work in those years was to solve the problem of food and clothing. In those years, people's needs were very simple: A warm back and full belly. However, things are quite different now. People's needs have become enriched and are changing frequently. Under these circumstances, we will not do without the market. The world's experience has proved that market mechanism is a more effective mechanism of disposal of resources. China's practice has also proved this point. Since the drive of reform and opening up to the outside world was launched, it has been proved that in localities where the market plays a greater role, the disposal of resources can be conducted in a more flexible way.

People have a sense of fear and anxiety of developing the market economy because they are worried that if the market economy is developed a little further, this would give rise to capitalism. Through the study of Comrade Xiaoping's talks which were delivered during his tour of south China, most comrades embraced the viewpoint of the market economy being not tantamount to capitalism—but not all people have necessarily relieved themselves of that worry. Used to the traditional structure, they have all sorts of worries about the development of the market economy. This being the case, it is my hope that theory workers will undertake a more thorough study of this issue.

**Excerpts of the speech by Wang Jue [3796 3778], professor at the Party School of the CPC Central Committee: "It Is Wise To Reform the Property Rights Management System Sooner Than Later"**

The basic question of deepening economic restructuring is to help large and medium-sized state-run enterprises become market-oriented so that they will become the principal player of the market. This is the basic prerequisite for establishing a new socialist market economic system. As I see it, it is necessary to carry out two reforms and two transformations. The former refers to the reform of the state-owned assets management structure and of the enterprise organizational structure, while the latter refers to the transformation of enterprise mechanisms and of government functions. The former is the prerequisite for the realization of the latter and the latter is the direct result of the former.

Reform of the state-owned assets management structure has become crucial to deepening reform, which alone can untie the fast knot of the old structure. The old structure was deeply rooted in the unitary main body [zhu ti 0031 7555] of property rights, the modes of possession characterized by administrative compartmentalization, and an operation mechanism based on administrative monopoly. In a word, it can be called an administration-oriented management structure or an official-standard management structure. The basic line of thinking on reforming this state-owned assets management structure is that the function of the property rights of state-owned assets should no longer be exercised by government departments and should be separated from the functions of the government and be put under the unified management of a nonadministrative specialized organization. The organization then lets many assets operating units operate the state-owned assets with compensation in the forms, such as commission, loan, and leasing. Thus, the main body of state-owned assets will become more diversified. Assets operating units can invest their state-owned assets at their disposal in enterprises. Hence, enterprise investment has more investment sources. However, the assets, which the different investors invest in enterprises, should be used in a centralized way. This calls for the establishment of a system of ownership by the legal persons.

It must be pointed out that the reform of the above mentioned state-owned assets management structure is aimed at reducing the former three functions of the government—namely, ownership of the assets, social administrative management, and macroeconomic regulation and control—into two functions (the ownership function is separated from the functions of the government). That is, the social management function and the macroeconomic regulation and control function. Since the government has no longer performed the assets ownership function, it can let the organizations or units managing, operating, and using their own assets manage the numerous related microeconomic activities. It is thus natural that the economic function of the government should be shifted to the macroeconomic aspect. This will

help streamline the government structure and reduce the staff and raise efficiency. More importantly, it will provide an objective foundation for the building of a clean government.

**Excerpts of the speech by Zhang Zuoyuan [1728 0587 0337], director and research fellow of the Institute of Finance, Trade, and Commodities Economics Under the Chinese Academy of Social Sciences: "Inflation Will Not Rebound This Year"**

The economy is continuing to heat up. Industrial production is developing at a high speed, with its growth rate being 18 percent and the newly added loans topping state plans in the first half of the year. As the economy develops at an accelerated pace, economic workers and economic scholars are worried that inflation will rebound and afraid that price will rise at a double-digit rate. As I see it, the pressure of inflation is indeed building up, but it is still difficult to expect a rebound in inflation this year, and even at the beginning of next year. This year, prices will not rise at a double-digit rate. The retail price index hike rate is expected to be at 6 percent or slightly higher. From a long-term point of view, the situation is not promising.

This year will not see a rebound in inflation because market supply and demand—in particular, the market supply and demand of consumer goods—are relatively stable. The supply and demand of more than 80 percent of consumer goods were stable, or supply exceeded demand. To put it another way, the current pattern of a limited buyer market has not been smashed. The supply of consumer goods is ample, partly because in the 1984-88 period, industrial production expanded to a new level and the productive capacity for durable consumer goods increased by a wide margin, and partly because the government devoted efforts to strengthening agriculture during the economic improvement and rectification period, enabling the reaping of agricultural bumper harvests in three years running. Of people's current consumption spending, 50 percent was spent on food. The ample supply of food and stable prices have checked price hikes to a greater extent. In terms of consumption demand, the consumption of Chinese residents has now entered a stage of relative stability and gradual improvement. Now leading, fairly costly consumer goods which are most sought after by residents or city dwellers throughout the country have not yet emerged. On the other hand, the fact that nominal interest rates stand higher than price hike rates is conducive to stabilizing and encouraging saving. This being the case, the saving of the urban and rural population has increased steadily and by a wide margin in the last two or three years, with the total saving deposits topping the mark of 1 trillion yuan. It can thus be expected that as long as the situation in which interest rates stand higher than price hike rates is maintained and the actual interest rates keep their normal value [zheng zhi 2973 0237], a reverse turn is unlikely to take place in the momentum of the residents' saving growth. This is an important factor for the stable market.

Nevertheless, we still should not take the building up of inflation pressure lightly. The growth rate of living expense indices of the employees in big and medium-sized cities has been double-digit recently. The exchange rates of the renminbi have sharply dropped in the foreign exchange adjustment market. All this calls for our attention. Therefore, the state's macroeconomic policy should strive to avoid a rebound in inflation. Once it occurs, not only will it be detrimental to the steady development of the economy, but we also have to pay a high price for checking inflation. Moreover, it will also be detrimental to the smooth progress of economic restructuring and cause a return to the former irrational price relations. To avoid a rebound in inflation, it is my suggestion that the government continue to energetically strengthen agriculture so as to ensure an ample food supply; persist in keeping nominal interest rates higher than price hike rates, and it would be better to restore the practice of value-guaranteed saving deposits, which is advantageous to stabilizing the residents' saving mentality; and check the excessively fast growth of investment in fixed assets. The government should also control the growth rates of additional loans and money supply and firmly hold the "general gate" of inflation; that is, control the excessively high growth rate of the manufacturing industry—the processing industry in particular—keep their average growth rate under 15 percent every year, and devote efforts to carrying out structural readjustments and improving efficiency. Moreover, efforts should also be made to improve price calculating work and avoid exclusively using retail price indices to indicate price level fluctuations. At present, it is necessary to make full use of the current economic situation, quicken the pace of reform and opening up, take a big substantial step in establishing a new socialist market economic structure so as to achieve a benign cycle in the national economy as quickly as possible, and provide a structural guarantee for faster economic development.

**Excerpts of the speech by Fan Gang [2868 4854], associate research fellow of the Economics Institute Under the Chinese Academy of Social Sciences: "An Analysis of the Prime Purpose of the Shareholding System"**

There has been a moderate "stock craze" developing in China's economic life. Everyone is talking about stock trading, and all localities are studying the stock market. In the face of this phenomenon, we must have a further sober understanding of some related basic economic relations.

First, the shareholding system is not tantamount to the stock market. Historically, the stock market took place long after the formation of stock companies. The proportion of companies going public in all the stock companies has been considerably limited to date (it is said the proportion of Japan's stock companies is one per thousand).

Second, in terms of deeper relations, the shareholding system is, first of all, a relationship of property rights; or,

to be more specific, it is a way with which to delimit and stabilize property rights rather than a "fund-raising mechanism." With the stocks of an enterprise going public, the ownership of the stocks has become socialized and marketized. Therefore, there is no doubt that the enterprise' property rights system will further change accordingly. Nevertheless, the basic characteristic and function of the shareholding system remain in the category of the property rights relationship embodied by the "partnership system" and not in the fund-raising function when the stocks were publicly listed or in the business relationship of stock trading.

Third, one important task of carrying out reform in our economic structure is to solve the confused property rights relationship between the internal sectors of the former state-owned economy so as to promote the improvement of economic efficiency by an effective and definite property rights relationship. The principal characteristic of the shareholding system is that the system is an effective way of clearly delimiting property rights, which has been developed from the past. The primary significance of developing the shareholding system lies precisely in the fact that the system can make property rights more definite, gradually reform the existing property rights relationship, solve the problem of poor efficiency in China's economy caused by the confused property rights relationship, eliminate and prevent the numerous economic disputes caused by the confused property rights relationship, and remove the overt and covert obstructions caused by the confused property rights relationship.

To what extent reforms in the shareholding system, currently in place or under consideration for a possible wide adoption, can improve the operation efficiency of state-run enterprises remains a matter that calls for study. When "the ultimate owners" remain unchanged, the exclusively formal change of the signboard of a stock company and the change from the director to the manager and from the bureau chief to the chairman of the board of directors will not be able to thoroughly solve the many deep-rooted problems currently facing state-run enterprises; particularly, the problems relating to the ultimate property rights. After the stocks of a "state-run stock company" went public, it is still very difficult for the company to "get tough" in terms of "budgetary checks"; it is also very difficult for the prices of its stocks to reflect its capital efficiency. The hidden dangers of the stock market caused by this state of affairs should not be ignored. In my opinion, the primary task of reform is to establish a stock company system and deepen the substantial structural reforms step by step, rather than to have more stocks publicly listed in the stock market. So long as we are clear about property rights, many things can be accomplished more easily no matter what reforms we will make in the next step.

**Excerpts of the speech by Guo Shuqing [6753 2885 7230], deputy director and research fellow of the Economic Research Center Under the State Planning Commission: "Pay Close Attention to the Primary Task of Reform"**

I would like to stress three things: One is to put reform in the first place. Reform is aimed at accelerating economic development. If we boldly break major hurdles in reform and quicken the pace of transforming the state-owned economic operation mechanism, we will be able to create the most important condition to guarantee the sustained and steady development of the economy. If so, it is entirely possible for our economy to grow at an average rate of about 9 percent during the Eighth Five-Year Plan and throughout the 1990's.

The other is that the main tasks facing the current reform are to solve the problems left from price reform and build up a complete production means market; to thoroughly separate the functions of the government from those of the enterprises, with the stress on solving the problem of no distinction being made between government and enterprise functions in the state-run industrial enterprises; to transform the operation mechanism of large and medium-sized state-run enterprises with the reform of the property rights system as the core; and to carry out various related reforms centering on the establishment of a unified national security system. All these reform tasks are extremely urgent and brook no delay. Therefore, apart from making a plan for the coordination of the reforms, efforts should also be made to create a sound macroeconomic environment.

The third thing is that particular importance should be attached to readjusting the industrial structure, because the results achieved in this regard will be conducive not only to faster economic growth, but also conducive to the faster establishment and improvement of the market economic structure. If no speedy advances are made in structural readjustment, the fast implementation of the market-oriented reform will cause bankruptcy and unemployment on a quite big scale, but the slow implementation of the reform will lead to a situation of stagnation. As such, it is necessary to pursue a complete set of structural readjustment policies, including giving priority to the development of the tertiary industry, so as to transform the idle personnel and production conditions of state-run economic departments; to break the bounds of different departments and different localities, eradicate the demarcation line between ownership and financial relations, and carry out enterprise integration and mergers in an overall way; to encourage all enterprises and individual investors to make transregional investments, strictly protect the investors' interests according to law, and strive to put an end as quickly as possible to the situation in which it is easier and more feasible to handle foreign-related investment than domestic transregional investment; and to implement specific industrial invigoration plans among selected important leading industries and mainstay industries and for the state to promote these industries to form

large enterprises and enterprise groups which use more high technology and are able to meet the requirements of the economy of scale by using monetary, financial, foreign trade, and foreign exchange.

**Excerpts of the speech by Zhong Pengrong [6988 2590 2837], associate research fellow of the Investigation and Study of Office of the General Office of the CPC Central Committee: "Have a Comprehensive Understanding of the Impact of Stocks on the Circulation of Currency"**

Issuing stocks has both an advantageous and a disadvantageous impact on the circulation of currency.

First, turning some bank deposits and cash into stocks means turning the funds which can be "used for dual purposes" at any time (banks loan the funds to enterprises for buying production elements and residents can draw money to buy stocks while bank loans have not been recovered) into construction funds of long-term stability. Because once stocks are bought, they are not refundable. The more the funds in the form of stocks exist, the greater the portion of a medium- and long-term stability fund in the amount of all funds will become and the smaller the pressure of money balance on inflation will become. This is the positive role of issuing stocks in stabilizing current money.

Second, the selling of some stock ownership of existing assets can play a role in withdrawing currency. Of China's state-owned assets, the assets worth more than thousands of billions [currency not specified] are owned by the state nominally, but they are individual property in reality because they came from the transformation of the residents' deposits. Transferring some of this portion of assets in the form of stocks to the individuals means revealing the true colors of some nominal state-owned assets, rather than selling state-owned assets. The money income from selling this kind of stock can be collected by state-assets management departments and then handed over to the central bank. Hence, in addition to the existing currency-withdrawal channels, such as commodity withdrawal and credit withdrawal, there is another new currency-withdrawal channel, namely, assets withdrawal. This is also the positive role of issuing stocks in stabilizing current money.

Third, expanding investment by issuing stocks will help accelerate the circulation of currency and boost total social demand. Different from the aforesaid stocks of a withdrawal nature, the funds pooled by enterprises by issuing stocks are for buying purposes. Allowing an enterprise to issue stocks with a face amount of one million yuan and the granting of a loan worth one million yuan (here the factor of stock appreciation is excluded) by a specialized bank to the enterprise will play entirely the same role in speeding up the currency circulation rate and boosting total social demand. The stocks, which we have currently issued, are ones of an investment nature. When the scale of indirect short-term funds of specialized banks is not appropriately reduced, the excessive issuance of this kind of stock will give rise

to inflation. This is the unfavorable impact of issuing stocks on stabilizing current money.

The aforesaid analysis shows that on the one hand, we should issue more stocks of a withdrawal nature and on the other hand, the scale of indirect short-term funds of specialized banks should be curtailed by a wide margin in coordination with the issuance of stocks of an investment nature. Only in this way can the total money supply generated by the issuance of stocks and loans not over-expand.

### QIUSHI on New Enterprise Operation Rules

*HK0209083092 Beijing QIUSHI in Chinese  
No 15, 1 Aug 92 pp 6-11*

[Article by Chen Jinhua (7115 6930 5478): "Establish Enterprise Operational Mechanisms Full of Vigor and Dynamism"]

[Text] State-owned enterprises form the pillar and the backbone force of our country's modernization, and also form the main source of the state's revenue. Transforming their operational mechanisms and improving the operation of the state-owned enterprises, especially the large and medium-sized ones among them, is a decisive step to increase our comprehensive national strength and to bring the advantages of the socialist system into full play. However, the present state of operation among the state-owned enterprises is still far from being commensurate with their status and role in the national economy. To rapidly and effectively change this state of affairs and to quicken the transformation of enterprise operational mechanisms, the State Council promulgated the "Regulations on the Transformation of the Operational Mechanisms in Industrial Enterprises Owned by the Whole People." The "Regulations" follow the principles and policies for enterprise management reform the party has adopted since the Third Plenary Session of the 11th CPC Central Committee, sum up our country's rich experience in enterprise management reform, give expression to such principles as separating government functions from enterprise operation and ownership from management, properly keeping overall economic control, and invigorating microeconomic activities, specify the target and concrete steps for transforming enterprise operational mechanisms and the details of various reforms in this connection; and use the standard language of law to clearly stipulate the rights, responsibilities, and benefits of the enterprises as independent legal persons that operate on their own, bear sole responsibility for their own profits and losses, have self-development ability, and exercise self-discipline when engaging in commodity production and circulation. To quicken the transformation of the enterprise operational mechanisms, we must take the implementation of the "Regulations" as a major step for the comprehensive enforcement of the "Enterprise Law," and must unify understanding, coordinate action, and make

an effort to ensure its implementation, thus bringing vigor to more and more state-owned enterprises and increasing their dynamism.

### Ensuring Enterprise Management Rights Is the Prerequisite of Transforming Enterprise Operational Mechanisms

Enterprise management power refers to their right to possess, use, and legally handle assets assigned to them by the state. Ensuring that enterprises fully enjoy the right of self-management is a necessary condition for turning them into independent commodity producers and dealers, and is also a prerequisite of transforming enterprise operational mechanisms and making enterprises bear sole responsibility for their own profits and losses. Only when enterprises have the right to make decisions on their own production and operation can they act in light of the law of value and take the initiative in adapting themselves to changes in market demand by promptly adjusting their production structure and producing marketable products. Only when enterprises have the right to fix prices for their products can they step into the market and involve themselves in fair competition basically on an equal footing; and only thus can the economic performances of enterprises be fairly assessed. Only when enterprises have the right to handle their internal labor and personnel affairs and to decide the distribution of wages and bonuses inside enterprises can reform of the enterprise personnel, labor, and wage systems be carried out so as to establish their own employment and cadre appointment systems as well as their internal distribution system, thus better relying on the working class and fully arousing worker enthusiasm. Therefore, the "Regulations" give detailed explanations of enterprise management rights according to the relevant provisions of the "Enterprise Law" and make relevant stipulations more practical, pertinent, and applicable.

With regard to enterprise rights to make decisions on their own production and operation. The "Regulations" specify new rules on forms and guarantee measures for execution of the mandatory plans, and this is aimed at changing the previous situation in which the relevant government departments did not properly coordinate the mandatory plans they laid down, leaving gaps and affecting the implementation and seriousness of the state plans as well as the operation of enterprises. First, enterprises that carry out the state's mandatory plans have the right to require the relevant government departments to organize consumer enterprises to sign purchase contracts with them, and can also require signing state purchase contracts with the departments designated by the state. Second, in order to ensure the honoring of the contracts related to mandatory production plans, the government departments concerned should provide necessary conditions. For the mandatory plans that do not guarantee the supply of materials, energy, and transportation facilities, enterprises concerned can demand adjustments, or refuse to carry out the plans if no adjustments are made.

In order to meet the needs of enterprise participation in market competition, the "Regulations" delegate power to enterprises to decide on their own adjustment and expansion of the scope of their production and operation, and allow them to diversify their production and operation in several trades while mainly engaging in their original trade.

With regard to enterprise rights to make investment decisions. As independent commodity producers and dealers, enterprises must have the right to decide their investments in order to seek self-development, but in order to prevent blind investment, investors must also bear greater responsibility. The "Regulations" include some new stipulations on enterprise rights to decide investments in order to change the current situation in which enterprises do not have much decisionmaking power over investment matters, do not have enough ability to conduct technological transformations, and do not bear responsibility for errors in investment. First, restrictions over the scale of investment made by enterprises have been lifted, and the "Regulations" explicitly stipulate that an enterprise's power to decide investment is determined by its investment capacity. If an enterprise uses its own funds or funds it raises by itself to conduct productive construction, it has the right to make the decision on its own. If an enterprise has investment capacity but cannot prepare necessary construction and production conditions, or still need to get state investment, contract bank loans, or raise funds through issuing bonds to the public, its investment plan should be submitted to the department concerned for comprehensive balancing and approval. Second, in order to encourage enterprises to reinvest funds retained in their hands and to guide enterprises to shift surplus consumption funds to productive construction, thus increasing their self-development ability, the state will give corresponding preferential taxation treatment to the profits retained by enterprises for productive construction or for replenishing the working funds. At the same time, enterprises should increase the proportion of new product development funds according to their economic results and bearing capacity, and can also decide on their own the rate of depreciation and the growth rate of depreciation funds according to the state's relevant policy for quickening depreciation. Third, in order to prevent the abuse of the investment decision-making power and to improve investment results, the "Regulations" also stipulate corresponding legal responsibilities for investment errors made by enterprises and relevant government departments.

With regard to enterprise rights to fix prices of products and services. Establishing a reasonable pricing mechanism is of great significance for the development of enterprises. At present, a major reason why some enterprises find it hard to move into the market, participate in fair competition, and bear sole responsibility for their own profits and losses lies in the distortion of prices, the existence of too many management departments which give contradictory instructions. This impedes enterprises

from effectively changing operational mechanisms. According to the principle of not only controlling general price levels, but also rationalizing prices of products and services offered by enterprises, and in order to advance the price reform step by step in the orientation of eventually decontrolling prices across the board under the prerequisite of reducing the shock to society, the "Regulations" stipulate that with the exception of a small number of daily-use industrial goods whose prices will still be fixed by the State Council and provincial price administrations, prices of most consumer goods will gradually be subject to market regulation; with the exception of a small number of products whose prices will be controlled by the price management program, the prices of most capital goods or production materials will be fixed by enterprises; service fees for processing, maintenance, and technical cooperation provided by enterprises will be fixed by the enterprises themselves. This stipulation not only guarantees state price supervision and management and prevents prices from going out of control, but also ensure that the enterprises have the necessary right to fix prices on their own. In the long run, this is favorable to the establishment and improvement of a new pricing mechanism and will increase enterprise ability to adapt to the market.

With regard to enterprise rights to conduct import and export trade. In order to increase enterprise competitiveness in the international market and to increase exports, it is necessary to delegate greater foreign trade power to industrial enterprises. The "Regulations" thus stipulates that with the approval of the relevant government department, enterprises which meet the requirements will enjoy the right to conduct import and export trade, will be given import and export quotas and licenses, and will enjoy the same treatments available to foreign trade enterprises. Enterprises can, according to their needs in business, decide the number of their staff who can often cross the border, and the relevant government departments will simplify examination and approval procedures and adopt the method of giving approval once every year that is valid for many trips within the year. Enterprises can, according to relevant state stipulations, undertake overseas construction contracts, conduct technical cooperation with foreign companies, provide labor services in other forms, and actively develop transnational operations. Enterprises which do not have the right to conduct import and export trade can also participate in trade negotiations with their foreign counterparts so that they will also increase competitive awareness and enhance their competitiveness.

With regard to enterprise rights to decide their own labor and personnel affairs and the distribution of wages and bonuses. Giving full consideration to social stability and enterprise bearing capacity, enterprises should gradually establish a set of labor, personnel, and income distribution systems under which workers can both take and quit jobs, cadres can both be appointed and relieved, and incomes may increase and decrease. In view of the problems existing in the employment system, the "Regulations" stipulate that enterprises have the right to

decide on their own the time, conditions, forms, and quantities of worker recruitment, to rationalize their labor structure, and to dismiss, lay off, and stop employing workers. As the scope of enterprise employment is related to a wide scope of affairs which must be coordinated by the state, the "Regulations" reiterate relevant laws and State Council regulations concerning worker recruitment between cities and countryside and the job placement of demobilized soldiers, national minorities, women, and handicapped people.

Terminating the system of life-time office tenure for cadres is a fundamental measure for raising the quality of enterprise cadres, increasing their vigor, and arousing the work enthusiasm and initiative of all cadres and workers. Therefore, it is necessary first to adopt the cadre examination and work assessment system in order to assign cadres to various posts and decide their remunerations according to work performance. Second, it is necessary to adopt the system of appointing cadres through inviting competitive applications, thus terminating the unreasonable system of assigning a cadre to a work post according to his status and not changing a cadre's official position if there is no change in his status. Enterprises can assign other jobs to management and technical personnel who are relieved from office or fail in their job applications. This means that they can be assigned to a worker's post. On the other hand, outstanding workers can also be promoted and appointed to the managing or technical positions. Thus, able people can move up, and mediocre people have to move down. This will broaden the channel for selecting, appointing, and promoting competent and qualified people to leading positions in enterprises.

Reforming the egalitarian distribution system is an important measure for arousing the work enthusiasm and creativity of enterprise workers and for properly coordinating relations between various enterprises. The "Regulations" explicitly stipulate that enterprises have the right to decide on their own internal wage and bonus distribution and that worker wage and bonus income can be differentiated according to work intensity, responsibility, conditions, skills, and actual contributions. They can adopt the wage system that fixes wages according to various work posts and skills, or can adopt other wage systems suited to characteristics of their trades so that management personnel at various levels of enterprises can be encouraged to work hard and continuously make progress.

With regard to enterprise rights to handle assets, the "Regulations" stipulate that enterprises are authorized to make decisions on leasing fixed assets, or leaving them as a pledge for loans, or transferring them on a paid basis. Key equipment, whole-set equipment, and major buildings of enterprises can be leased, and can also be left as a pledge to raise a mortgage loan or transferred on a paid basis with the approval of government departments in charge. With regard to enterprise rights to use funds in their own hands, the "Regulations" stipulate that under the prerequisite of ensuring the value and

appreciation of enterprise assets, enterprises have the right to decide the proportions of various funds derived from the after-tax profits and their concrete use with this being reported to the government departments in charge for record. The "Regulations" also include some new provisions on enterprise rights to decide their product sales and material purchases, and to reject irregular levies and charges.

#### **Making Enterprises Bear Strict Responsibility for Profits and Losses Is the Key to the Transformation of Enterprise Operational Mechanisms**

The practice of enterprise reform shows that without full decisionmaking power in their routine operation, enterprises cannot and should not bear responsibility for their own profits and losses; on the contrary, when enterprises have decisionmaking power and still do not bear responsibility for their own profits and losses, they may abuse such management power, and tend to such short-term behavior as tilting the distribution of income toward increasing individual incomes at the expense of state interests. Therefore, establishing a mechanism of bearing responsibility for their own profits and losses in enterprises and making them bear strict responsibility for profits and losses is the key to transformation of enterprise operational mechanisms. In this regard, the "Regulations" stipulate the following four points:

First, increasing the responsibility of the factory director and all the workers for the enterprise's business results. The "Regulations" stipulate that the factory director bears direct work responsibility for his enterprise's operation results, namely, profits or losses. If an enterprise fulfills the quota for turning over profits to the state for three consecutive years and achieves the target of assets appreciation, or achieves the target of reducing losses or increasing profits, corresponding awards will be given to the factory director, and workers can also gain more benefits. On the contrary, if an enterprise cannot fulfill its profit turnover quota and incurs business losses due to improper management, wages for the factory director and other factory leaders will be reduced correspondingly, or administrative disciplinary action will be taken against them. Workers should also bear economic responsibilities according to internal enterprise management regulations, and their income may be decreased if they fail to fulfill the production quotas for their work posts. Thus, enterprise business results, namely, its profits or losses, will have a direct bearing on the immediate personal interest of workers, and will also be linked to the awards or penalties to the enterprise manager. The enterprise manager, all the workers, and the enterprise are all bound as an interest community, and share the same honor and humiliation. This will give a stronger sense of responsibility to the enterprise manager and all workers for improving enterprise operation, and will also give a stronger incentive to all workers to do their job better.

Second, increasing enterprise responsibility for making up for the gap in their income. If an enterprise which has

adopted the responsibility system based on the management contract fails to fulfill the profit-turnover task, it should use its risk fund, or wage reserve fund, or retained profits to make up for the gap. If an enterprise which has adopted the responsibility system based on a lease fails to fulfill the general business targets specified by the lease or business contract or defaults in rent payment, it should make up for the gap with its risk fund or with its consumption fund. If this still cannot cover the whole gap, the lease undertaker or the guarantor should use the property that has been turned into a pledge to fill the gap.

Third, increasing enterprise responsibility for invisible business losses. In the past, some enterprises did not keep accurate accounts and submitted false reports about their inventories. They did not include all cost items properly in the cost account, or did not allocate sufficient expenses for some specific items according to the rules. This caused serious invisible losses. Invisible losses, in essence, represent the action of infringing upon state-owned assets through inaccurate cost accounting, and this leads to an exaggerated amount of income in an enterprise and allows it to distribute an additional amount of bonuses to the staff. Such potential losses are more harmful than visible losses. The "Regulations" stipulate that enterprises which cause exaggerated profits and cover up actual losses by means of playing fraud in accounting will be enjoined to make up for the gap with their own funds. In view of the fact that the reasons for enterprise invisible losses are rather complicated, accumulated losses incurred by enterprises before the promulgation of the "Regulations" will be handled after asset verification is completed. However, if losses are incurred after the promulgation of the "Regulations," responsibility will be affixed to factory leaders and other responsible personnel according to the seriousness of the case.

Fourth, increasing enterprise self-discipline responsibility in the matter of distribution. To solve the problem of income distribution which is tilted toward individuals, the "Regulations" stipulate that the general principle for income distribution in the enterprises is: The growth rate of the total payroll should not be higher than the growth rate of the enterprise's economic operation results; the growth rate of workers' actual income should not be higher than the growth rate of the enterprise's labor productivity. Wages, bonuses, allowances, subsidies, and other forms of individual incomes for enterprise workers should be included in the total payroll. The income of enterprise workers should increase or decrease in light of the increase or decrease in enterprise profits. To prevent the haphazardness of enterprises in their internal income distribution and to increase their self-discipline responsibility, the "Regulations" also stipulate that if an enterprise violate the provision concerned, the government department in charge should check and correct its behavior in good time. The extra undue income that workers have taken is to be gradually deducted from their later pay.

### **Bringing Life and Death to Enterprises Is an Important Point in Transforming Enterprise Operational Mechanisms**

Due to such subjective and objective reasons as incorrect decisions, improper management, and insufficient input, many enterprises in our country did not produce marketable goods, overstockpiled products, kept backward technology in their production, and wasted state funds and property. They thus became heavy burdens on the back of the state and affected the enhancement of overall economic results. At present, people have come to realize that enterprise life and death should also follow the objective economic laws. If those that should be dead are still kept intact, they deadlock funds and make it hard for those that are still alive to fare well. Overall economic results would not be improved. Therefore, the "Regulations" include a chapter on changing and terminating an enterprise, and stipulate the concrete methods of suspending the operation of an enterprise, enterprise merger, division, disbandment, and bankruptcy.

In recent years, substantial changes have occurred in the supply-demand relationship and the consumption structure of the market. This has made it inevitable for enterprises to adjust their production structure correspondingly. Some enterprises may be forced to do this because their main products are not in keeping with state industrial policy or are seriously stockpiled because of being unmarketable. Other enterprises may take the initiative in adjusting their production according to the market forecast in order to achieve better economic results, and they can continuously enhance their competitiveness and increase their market share. Enterprises may shift production to other products in their original trades or may shift to other trades and industries. The government departments in charge should support feasible programs for production adjustments and provide necessary conditions for this. To promote trade planning and reduce losses caused by blind enterprise action in changing production, plans for shifting production to other trades and industries should be approved by the government departments in charge.

To reduce business losses incurred by many enterprises as soon as possible and to increase overall profits, it is necessary to suspend operation of enterprises which have been incurring serious losses for improper management and carry out reorganization in such enterprises. Such enterprises can also apply for production suspension for reorganization, and may be ordered by government departments concerned to do so. In general, the period of production suspension should not be longer than one year. Corresponding schemes for reorganization should be worked out for enterprises which suspend their operation, and strict discipline should be enforced to keep economic order and protect enterprise assets.

Enterprise mergers include those decided by the government and those carried out by enterprises on their own. In mergers decided by the government, the transfer of assets can be conducted on an unpaid basis, and the right

to collect debts of the enterprise to be merged into the enterprise to carry out the takeover and the debts owed by the former should all be shifted to and borne by the latter. In mergers carried out by enterprises on their own, assets should be subject to paid transfer. In this situation, an enterprise has the right to decide whether to take over another enterprise, and it must also take over the debts owed by the latter as well as taking over the latter's creditor rights. To promote the adjustment of enterprise organizational structure and to encourage superior enterprises to take over inferior enterprises, the "Regulations" stipulate some corresponding preferential policies for such takeovers.

To close down an enterprise is generally called enterprise termination in legal terms. The "Regulations" stipulate that if an enterprise still fails to stop business losses and cannot begin to reap profits after suspending operation for reorganization and if it cannot be merged into another enterprise, then under the premise of guaranteeing repayment of debts, the government can decide to disband this enterprise. If an enterprise incurs serious business losses due to improper management and cannot pay off debts due, it should announce bankruptcy according to law. After an enterprise goes bankrupt, other enterprises can also sign contracts with the receiving group in bankruptcy on "taking over" the bankrupt enterprise under the prerequisite of paying off debts according to the proportion decided by the court and giving proper treatment to workers of the bankrupt enterprise. Thus, under the legal condition of closing down an enterprise, concrete arrangements can be made according to the principle of "reducing the number of enterprises being closed down and increasing the number of enterprises being merged; making a problem enterprise go bankrupt first before a merger is effected." This can help reduce social shock, and can prompt more enterprises to stop their business losses.

Some enterprise closedown, operation suspension, merge, and production changes are normal phenomena in socioeconomic activities, and they also represent some major measures for establishing a competition mechanism of eliminating the bad and keeping the good. Society cannot be a pool of stagnant water and cannot be bogged down in a standstill. To make social progress and development, backward things must be eliminated. This is an objective law. We should respect and learn how to apply this law in practice. We should not regard some enterprise closedown, operation suspension, merger, and production changes as something negative; instead, they should be considered as positive, progressive, and good things. Of course, socioeconomic activities and enterprise operation are very complicated, so when action is taken to effect some enterprise closedown, operation suspension, merger, and production changes, we must give full consideration to the arduousness and complications of the relevant work, and should strengthen leadership and work carefully. There must be no recklessness, which may just make things go contrary to what we want to see.

### **Changing Government Functions, Establishing a Perfect Market and a Social Security System Is the Guarantee for Transforming Enterprise Operational Mechanisms**

The transformation of enterprise operational mechanisms cannot rely only on the efforts of enterprises themselves. This also requires some necessary external conditions, including the transformation of government functions and establishment of a perfect market and a social security system.

First, the government must transform its functions. The transformation of enterprise operational mechanisms is aimed at establishing enterprise status as independent commodity producers and dealers, and this requires that the government functions be separated from enterprise operation. The government must make this functional change and transform its method of managing enterprises. If government departments still maintain their previous highly centralized management methods and continue to exercise direct management over the personnel, materials, funds, purchases, production, marketing, and domestic and foreign trade of enterprises, enterprises will not really have the right to manage operations on their own and their operations will not be actually invigorated. In this sense, the transformation of the functions of government economic management departments is one of the major preconditions for the transformation of enterprise operational mechanisms. Government economic management departments must change their previous direct management over enterprises into indirect management, more widely adopt economic and legal means for regulating the economy and guiding economic activities, properly play a planning, coordinating, service, and supervisory role in light of the principle of "keeping the macroeconomic situation well under control and decontrolling and enlivening the microeconomic activities" without interfering in the concrete production and business activities of the enterprises. They should do a good job in formulating economic and social development strategy and guidelines as well as industrial policy, controlling overall balance, arranging and adjusting the industrial layout, and applying such economic levers as interest, tax, and exchange rates and price policy to control, regulate, and guide enterprise behavior. They should guide enterprises to undertake organizational restructuring and rationalize disposition of resources, help enterprises establish and perfect their financial, cost control, accounting, depreciation, income distribution, and tax collection and management systems. They should formulate an economic index system for assessing enterprise performance, improve the training of various types of enterprise personnel, continuously raise worker quality, promote technological progress, and provide timely and accurate information for enterprises. At the same time, the government should also develop and improve public welfare facilities and utilities related to the enterprises, thus reducing enterprises' social commitments and creating a better external conditions for the transformation of enterprise operational mechanisms.

Second, it is necessary to foster, develop, and perfect the market system. In the past more than 10 years, the market system in our country has made major development, but it is still far from meeting the needs in the development of the socialist commodity economy. In particular, markets for various production factors are still rather backward, as their capacity remains small and their rules are still imperfect. Among markets for other production factors, the market for the means of production, the capital market, and the labor market are still restrained by the blockades imposed by various localities and departments and have not been perfected yet. A unified nationwide market has not taken shape yet. This is not favorable to our efforts to push enterprises into the market, and also hinders the transformation of enterprise operational mechanisms. At present, all parties concerned are required to make efforts to break through local blockades and departmental barriers. Through effective coordination and reasonable planning and arrangement, we should establish a market for capital goods, labor, financial, technology, and information markets, and a market for enterprises to transfer their property rights as soon as possible, and establish and perfect an integrated nationwide market system with fair competition and sound rules.

Third, it is necessary to set up and improve a social security system which includes retirement pension insurance, unemployment insurance, and medical insurance for workers. These insurance systems directly concern the immediate and vital interests of enterprise workers. At the same time, they are also necessary support measures for enterprises to rationalize the disposition of the labor force or to effect operations suspension, close-downs, mergers, production shifts, and bankruptcy. Without a perfect social security system, it is hard to effectively transform enterprise operational mechanisms. In recent years, our country has taken certain measures to reform the original retirement and pension system and the original medical insurance system and has established a new unemployment insurance system for workers. However, an integrated insurance system that covers all aspects of society has not been established yet. It is still difficult to place redundant workers and to facilitate the movement of the work force. The situation in this regard does not meet needs in the transformation of the enterprise management mechanisms. We should now further sum up experience from pilot schemes of reform in this regard, and try to establish a basic pension system as soon as possible. With the adoption of an unemployment system, workers can receive a certain amount of unemployment compensation when they are seeking new jobs so that their basic livelihood can be guaranteed. It is also necessary to further improve the medical insurance system. According to reform practice, at present, the most important thing is to shift various insurance systems to the path of social management, thus forming an integrated social security system. It is necessary to gradually bring the level of insurance into line with the level of socioeconomic development, and to

ensure that the social security system can produce the positive social effects as it should.

Promulgation and implementation of the "Regulations" was an important event in the economic structural reform of our country, and it indicated that reform aimed at transforming enterprise operational mechanisms had developed from the stage of pilot schemes to the stage of across-the-board action. Henceforth, enterprise reform in our country should comprehensively carry out the "Regulations," and quicken the pace of transforming enterprise operational mechanisms. Local governments at various levels should conscientiously give publicity to the "Regulations," organize studies, and help cadres and the working masses understand the importance and main content of the "Regulations" and learn how to properly apply the rights specified by the "Regulations" to protect enterprise interests, safeguard state interests, and guarantee the legal operation of enterprises. Government departments concerned at various levels, enterprises, all organizations in enterprises, workers, and all social quarters concerned should, in light of the "Regulations," unify their understanding of the in-depth reforms, coordinate their reform steps, perform their duties strictly according to the provisions of the "Regulations," and resolutely run enterprises on the basis of laws and regulations according to the rights, duties, and responsibilities specified by the "Regulations." All localities and departments must, in connection with their actual conditions, give concrete guidance to different types of enterprises on the basis of properly grasping typical cases and carrying out pilot schemes, gradually push them forward through summing up experience, and eventually achieve the objective of transforming enterprise operational mechanisms by groups. Some provisions of the "Regulations" may break through the limitations of some existing policies, regulations, and rules. Various departments and localities should screen all regulations and rules they promulgated in the past to see whether there is anything incongruous with the "Enterprise Law" and the "Regulations." If such incongruity exists, they should revise them or issue an official circular on rescinding them.

The promulgation of the "Regulations" is just the beginning, the more important work is to put them into practice, to change conceptions correspondingly, and to bravely blaze a new trail in practice. We firmly believe that the establishment of socialist state-owned enterprises is in keeping with the objective law that determines the congruence between public ownership over the means of production and socialized mass production, so they should and completely can have the superiority of meeting the requirements of social progress. The "Regulations" strive to comply with this law in promoting the transformation of enterprise operational mechanisms and adding vigor and dynamism to enterprises. In the process of future development, we shall better seize opportunities, meet challenges, and create modern socialist enterprises with Chinese characteristics.

## PROVINCIAL

**Commentary Urges Developing Individual, Private Economy***HK0209135592 Lanzhou GANSU RIBAO in Chinese  
27 Jul 92 p 1*

[Commentator's Article: "Fully Attach Importance to This 'Supplementary' Part—On Developing Individual, Private Economy"]

[Text] Socialism needs market economy. This is no longer a theoretical question, but a practical existence which has been proven by real-life practice. Since socialism needs market economy, under the present condition in China that our economy is undeveloped, the co-existence of various economic sectors, including individual economy, private economy, collective economy and state-owned economy is an objective demand of the initial stage of socialism. Therefore, since the Third Plenary Session of the 11th CPC Central Committee, the CPC Central Committee and the State Council have repeatedly stressed: To develop our economy, the state, the collectives, and the individual must make concerted efforts. It has also been explicitly stressed that individual and private economy is a beneficial supplement to the socialist economy. Since it is a "supplement," it is, naturally, part of the socialist economy. Without this "supplement," our socialist economy is not complete. We must be fully aware of the role of this "supplementary" part, attach importance to it in our practical work, and guide it, so that it can develop healthily.

Over the past 12 years since reform and opening up, urban and rural economy in our province has been active, our market is prosperous, and our people's livelihood has been improved. True, this is mainly because of the sufficient development of the public-owned economy. In the meantime, the rapid development of the individual and private economy has also played an important role in this regard. As far as our urban life is concerned, if individual trading households do not transport and sell their goods, can the nonstaple food supply for our residents be as ample and convenient as it is now? Without vehicles provided by individual traders to which passengers can "beckon to stop," can the difficulties of the masses in traveling by cars be solved? Without a great number of peddlers, can a large quantity of industrial goods be promptly transported to remote mountain villages? Can some agricultural and sideline products be timely purchased? Nowadays, in our urban and rural circulation and the livelihood of the masses, we can experience the "supplementary" role of individual and private economy. Those who hold no prejudice cannot but admit this fact.

Although this "supplementary" part has played an important role in our country's economic prosperity, many business operators still have misgivings and doubts about it. They are worried about the possibility

that when policies are changed some day, they will become the targets of attack. Therefore, some individual and private economic operators have an idea of "ending their business once profits are made." They are unwilling to reinvest the profits they have earned in expanded reproduction. A small number of people in the society have also frowned upon them. They are jealous of their high incomes, saying that this is an "unfair distribution." This is mainly because of the fact that the influence of the "leftist" idea has not been completely eliminated. We once widely propagated that small producers were creating capitalism at all times. We also cut the "tail" of private ownership everywhere. We demanded purity and perfection in everything. This is an incorrect view, and a "leftist" act. All these are still deeply rooted in the minds of a number of people. We must continue to eradicate such "leftist" influence. We must understand that we have powerful large and medium-sized state-owned enterprises and very strong township and town enterprises in addition to our vast market. Can we not tolerate such a small "supplementary" part? As far as the practical reality in Gansu is concerned, state-owned and collective economy has accounted for about 94 percent of the total. Individual and private economy has only accounted for about 6 percent. Even though we give full rein to the development of individual and private economy, it will not develop into a leading status in our economic life. As far as the issue of high income is concerned, it has, on the one hand, reflected the fact that this "supplementary" part, namely individual and private economy, is still very small, and that full competition has not yet been carried out in it. This has enabled the present operators to have many opportunities to make higher profits. On the other hand, this has reflected that the management work of the government has still lagged behind, and that our tax collection system has not yet been perfect. Some of those taxpayers have not paid their taxes. We must realize that the majority of individual and private economic operators have truly made more strenuous efforts than people in general. They are taking greater risks in business operation. Although their incomes are higher, we cannot arbitrarily treat it as "unfair distribution." Some people do not make great contributions in labor, and their capability in business operation is not strong. But they make a big fortune in market activities because of good luck. Such gaps in incomes due to nonlabor factors are a temporary price which we must pay in the course of increasing our country's overall incomes and realizing common prosperity of the people of the whole country. Through the role of tax as a lever, the government will take stricter measures to exercise control over them.

We stress that we must attach importance to the "supplementary" part. This does not mean that we neglect the major part, our public-owned economy. In the operations of the entire national economy, our focus of leadership must still be centered on the transformation of operational mechanisms of the large medium-sized state-owned enterprises, and running well township and town enterprises. We emphasize that we must attach

importance to and handle well this "supplementary" part, because it is beneficial to the operations of the entire national economy. It is particularly beneficial to invigorating our large and medium-sized enterprises, and township and town enterprises as well. Therefore, we must on no account look down upon this "supplementary" part.

## FINANCE, BANKING

### Seminar on Share-Holding Companies Opens in Beijing

OW1409134692 Beijing XINHUA Domestic Service  
in Chinese 0621 GMT 14 Sep 92

[By reporter Wan Hongqiang (8001 4767 1730)]

[Text] Beijing, 14 September (XINHUA)—A "seminar on share-holding companies," sponsored by the State Commission for Restructuring the Economy, opened in Beijing today.

According to a briefing, the main purpose of the seminar is to study relevant laws and financial and other policies concerning the listing of stocks of mainland enterprises in Hong Kong stock markets. The seminar is being attended by 200 officials from the relevant ministries and commissions under the State Council and departments involving in restructuring the economic system in all provinces, municipalities, autonomous regions, and cities directly under provincial governments and having economic autonomy, as well as experts from scores of financial institutions in Hong Kong.

Liu Hongru, vice chairman of the state commission, spoke at the opening ceremony. He said: The pilot project on the share-holding system is a key component of China's economic reform. According to incomplete statistics of 1991, there were 3,220 enterprises experimenting with share-holding systems throughout the country. Following the publication of Deng Xiaoping's talks during his tour to the south, various localities have been enthusiastic about trying out the system. The relevant departments have recently approved the pilot project for a total of 363 enterprises. This seminar will play an important role in accelerating China's reform and opening up and promoting the wholesome development of the share-holding system in the country.

He pointed out: Judging from practical experiences accumulated so far, the key to success of the system lies in standardizing the organization and operations of share-holding companies, the supervision over companies by governments at various levels, and the organization, operations, and management of stock markets. He said: To standardize work in these areas, energetic efforts have been made to enact laws, improve supervisory organs, and train capable personnel.

He also disclosed that in addition to the "trial measures for share-holding enterprises," two "opinions for standardization," and 11 sets of regulations on accounting system, financial management, and management of state-owned assets, seven additional sets of supporting regulations will soon be promulgated.

President Li Yeguang of Hong Kong's United Exchange, which cosponsors the seminar, also spoke at the opening. He expressed hope that Hong Kong's experiences in stock exchanges, to be studied at the seminar, will be useful for developing stock markets on the mainland.

## SMALL-SCALE ENTERPRISES

### Commentary on New Strategy for Township Enterprises

92CE0613B Beijing NONGMIN RIBAO in Chinese  
15 Jul 92 p 1

[Commentary: "A Strategic Shift in the Development of Town and Township Enterprises"]

[Text] Recently, the Ministry of Agriculture, which oversees town and township enterprises throughout China, pointed out: In the next 10 years, the development of town and township enterprises will depend on technological progress. They will gradually shift from developing mainly extensive reproduction to developing mainly intensive reproduction, and onto the path of laying equal stress on improvement and development. This is a strategic shift in the development of China's town and township enterprises. Doing this aggressively and prudently, and accelerating the pace of change, will serve an extremely important function in propelling town and township enterprises to a new plateau.

Since reform and opening up, China's town and township enterprises have been a new and emerging force. They have become not only a pillar of the rural economy, but also an important constituent part of the national economy. But looking at the level of development of town and township enterprises themselves, there are still problems, such as a low-quality work force, obsolete technology and equipment, a low level of management, etc. Their technology not only falls behind advanced international standards, but also falls behind that of state-run enterprises. In the world today, science and technology are advancing by leaps and bounds, and competition in the marketplace is more and more intense. Whoever is the first to use advanced technology will be victorious in the intense competition of the market. It is urgently necessary, if town and township enterprises are to survive and develop, that they quickly shift the focal point of their development to reliance on technical progress, to shrink, as soon as possible, the gap separating them from state-run enterprises and international advanced standards. They must also continue to bring the advantages of their own mechanism into play, and continue healthy development. This is a practical choice, and is also a prerequisite for development.

In that case, how can town and township enterprises speed up their technological progress? Because town and township enterprises in different areas are developing unevenly, and standards are sometimes high and sometimes low, a policy of multi-level development and guidance according to their classification should be adopted. While the main thing is to introduce advanced and appropriate technology, they should continue to bring the advantages of traditional technology into play, and also stress combining traditional and new technologies. Specifically, they must come to grips with the recruitment and training of talent, and raise the quality of staff and workers at town and township enterprises by every possible means. They must speed up the introduction and updating of technology and equipment, vigorously develop new products, and organically combine technical transformation with the development of new technologies. They must, by deepening reform, establish and perfect an internal mechanism for achieving technical progress at town and township enterprises. Management science must be popularized, and the management level must be raised. They must bring into play the advantages of factory-managed technical research, and of combined undertakings in both technical research and production; be active in establishing enterprise groups; sponsor activities to solicit rational suggestions from the masses, and on technical renewal; carry out foreign and domestic technological exchange and cooperation activities on a broad scale; and make thorough use of the incentives offered by national and local policy to provide the funds needed for technical progress.

Technical progress at town and township enterprises is a massive systems engineering project. It is necessary not only to improve the leadership of administrative departments, but also to enlist the guidance, support, and assistance, of related departments and committees. Only with the active support and mutual assistance of various departments can they do a good job of the work of technical progress at town and township enterprises, and assure their continued and healthy development.

## LABOR

### 24 Million Retired in 1991

92CE0651A Beijing ZHONGGUO TONGJI XINXI  
BAO in Chinese 27 Jul 92 p 1

[Article by Li Huimin (2621 1979 3046): "China Has Over 24 Million Retirees, 5.1 Percent Are Working"]

[Text] By the end of 1991, there were 24.335 million retirees (pensioners) throughout China, or 1.322 million more than at the end of 1990, for an increase of 5.7 percent. This included 18.333 million retirees from state-owned units, up 6.3 percent from the end of 1990, 5.877 million from urban collectives, up 3.7 percent from the end of 1990, and 125,000 from units in all other types of ownership, up 16.8 percent from the end of 1990. The number of retirees grew more in 1991 than at any time in the last three years.

Taking the number of retirees as one, the ratio of retirees to employees was 1:6.0 in 1991, or slightly lower than in 1990, and maintaining its trend of several consecutive years of decline. This included a ratio of 1:5.8 for state-owned units, 1:6.2 for urban collectives, and 1:17.3 for units in all other types of ownership.

The statistical data on China's retirees underwent the following changes in 1991:

The number of people who left their jobs picked up, the number of retirees increased steadily, and the number of people who quit their jobs increased. By the end of 1991, the number of people who had quit their jobs reached 833,000, or 12,000 more than at the end of 1990, up 1.5 percent. This increase in the number of people who quit their jobs shows the increase in labor mobility among enterprises and industries that has accompanied labor reform.

By the end of 1991, 1.252 million retirees throughout China were working, or 14,000 less than in 1990, for a drop of 1.1 percent. These workers accounted for 5.1 percent of all retirees.

Statistics show that pension benefits were 2,374 yuan per retiree in 1991, up 13.1 percent from 1990, but lower than the 18.4 percent growth rate for 1990. Excluding inflation, the real growth was 7.6 percent. This included pensions (excluding medical and health costs, funeral expenses, and pensions for dependents of the deceased) of 1,937 yuan per retiree, up 211 yuan from 1990, for an increase of 12.2 percent, but lower than the 19 percent growth rate for 1990. Excluding inflation, the real growth was 6.8 percent. Taking pensions per retiree as one, the ratio of pensions per retiree to average employee wages was 1:1.21 in 1991, or less than its ratio of 1:1.24 in 1990.

Faced with the reality of China's steadily increasing numbers of retirees, the concerned departments have made the following recommendations:

1. We should further expand the scope of our retirement and old-age insurance. Statistics show that by the end of 1991, 2,272 cities and counties, or 96 percent, had old-age insurance in state-owned enterprises, while another 1,200 cities and counties had overall social planning in collective enterprises. But as collective enterprise old-age insurance has developed slowly with poor economic results, some enterprises are burdened with more retirees than employees, with pensions of up to 1,000 yuan per retiree, which is an unspeakably unbearable burden. Thus, we should further expand the scope of our retirement and old-age insurance, and develop our overall social planning for retirement to ensure that retirees' real living standards do not fall due to inflation, but that they rise somewhat instead along with average social consumption levels. Meanwhile, we could use public old-age insurance to resolve the conflict of lopsided pension burdens on collective enterprises to create favorable conditions for fair competition among enterprises.

2. We should enrich retirees' cultural lives, so that they can bring their remaining initiative into full play, in addition to making practical and feasible pay provisions for the work that they do.

### **Beijing Economics Professor on Furthering Wage Reform**

92CE0639A Beijing GUANLI SHIJIE  
[MANAGEMENT WORLD] in Chinese  
No 3, 24 May 92 pp 109-116

[Article by Yang Shiwang (2799 2514 2489), a professor at the Beijing Institute of Economics: "Basic Thoughts on Furthering Wage Reform"]

[Text] I. China's Wage Reform Successes and Experiences

#### **A. Wage Reform Successes**

##### **1. Basic Conditions**

In the last dozen years or so, China has achieved definite wage reform successes in overcoming past wage operation defects, such as wages being too "low, equalitarian, arbitrary, and rigid."

Our wage reform in the last dozen years or so has undergone the following five general phases: a. From 1978 to 1980, when we resumed bonuses and piece-rate wages, involving in particular an across-the-board raise, an emphasis on job proficiency assessment, promotions for the most proficient, and a change from three-year floating to fixed wages in 1979, and the success that we achieved in 1980 in changing from negotiated to calculated bonuses. b. From 1981 to 1985, when our enterprises were linked to the practice of an economic responsibility system that used wages and bonuses more flexibly, and many regions and enterprises simplified their wage standards by creating more practical and feasible new wage forms, which widened the wage spread, achieved remarkable success in eliminating equalitarianism and rationalizing wage relations, and began to restore some vitality to enterprises. c. The 1985 related reform to bring all enterprise reform wages into line with uniform national standards, which solved to a certain extent the defects of wages being too "arbitrary and low," but reequalized the already widened wage spread, which weakened the wage incentive impact and dampened the already stimulated worker initiative. d. From 1986 to 1988, involving mainly "the linking of wages to efficiency" so that enterprise payrolls fluctuated along with their economic efficiency, which strengthened the wage incentive impact, expanded the distribution decisionmaking power within enterprises, began to establish an enterprise wage growth mechanism, and was a correct reform direction and a basic success. e. The general wage adjustment in 1989, which played a certain role in making good wage losses due to inflation and

promoting political stability, but was certainly an equalitarian wage adjustment, which was an assault on the distribution decisionmaking power that enterprises had acquired.

While this dozen years or so of reform have brought an essential adaption of worker wage growth to production development, basic normality to the major proportional relations, and fundamental stability to key parameters, they have also brought an expansion of extra-wage income. In the last dozen years, the growth ratio of real worker payrolls to national income was 0.87:1 (which ratio was 0.69:1 for the Seventh Five-Year Plan), and the growth ratio of real average worker wages to labor productivity was 0.68:1 (which ratio was 0.5:1 for the Seventh Five-Year Plan). But while worker payrolls accounted for a relatively stable approximately 19-20 percent of national income and about 7.5 percent of costs, per-worker extra-wage income shot straight up from 49 yuan in 1985 to 714 yuan by 1990, for an average increase of 25 percent a year, which was obviously faster than the average payroll growth rate of 16.4 percent a year, in addition to being in a host of very covert forms. Sitting idle but still drawing cash, intercepting and keeping profits, using up depreciation funds, squeezing out development and circulating funds, and squeezing costs were all common occurrences. It is thus obvious that clarifying wage income limits and strictly controlling wage collection channels have become pressing tasks that will brook no delay to rectify this covert income problem.

In addition, it should be pointed out that while worker real wage growth for the Seventh Five-Year Plan was planned to be 4 percent, it was actually only 2.4 percent.

##### **2. Major Successes**

a. We have expanded enterprise distribution decision-making power, and begun to develop graded control. We have changed from our past centralized decisionmaking to level-by-level decisionmaking so that, while enterprises draw their payrolls within nationally stipulated limits, they have independent decisionmaking power in areas, such as reward fund and efficiency wage use, distribution form choice, and wage payment discretion. This has made it possible to rationalize wage relations within enterprises, and has been a powerful stimulus to overall wage reform.

b. We have "linked wages to efficiency," which has established a wage growth mechanism and restraint force. We have changed the basis on which we set payrolls from the past per worker criteria to an economic efficiency standard, which has created a new way to improve efficiency and raise wages, while providing enterprises with new funding sources for raising wages. Having wages fluctuate with economic efficiency has broken us free from enterprises all eating out of the state's big pot and workers all eating out of the enterprise's big pot, by tying production to distribution and contribution to reward and providing both motivation

and pressure, which has had the impact of increasing output and incomes, reducing staffs, tapping potential, raising labor productivity, and bringing an overall improvement to enterprise economic efficiency. In 1990 for instance, while profits and taxes paid to the state fell 12.7 percent and realized profits and taxes dropped 22.2 percent for budgeted industrial enterprises throughout China, profits and taxes paid to the state actually rose 3.4 percent and realized profits and taxes dropped only 11 percent for enterprises that "linked wages to efficiency." So practice has proved that "linking wages to efficiency" is an effective way to improve wage efficiency and achieve distribution according to work.

c. We have begun to reform our wage system, and have simplified our wage standards. We have cut down our former over 300 wage categories to nine types in three classifications, resumed piece rate wages and the bonus system, reformed our promotion system, and adjusted our wage standards for all classifications of new personnel.

d. We have raised wages based on production development. While the average annual wage for workers under state ownership was 644 yuan in 1978, it had risen to 2,055 yuan by 1989, for an increase of 219.1 percent. Meanwhile, national income rose an average of 8.7 percent a year, payrolls went up an average of 7 percent a year, worker cash wages increased at an average rate of 11 percent, and excluding inflation, real wages rose at an average rate of 3.3 percent.

e. We have begun to rationalize wage relations, and have gradually resolved our most glaring and irrational wage disparities. In all of our adjustments, we have paid attention to resolving the matter of wages being too low. Our reform within enterprises has been focused on adjusting the wage relations between frontline and second and third line workers, hard jobs and ordinary jobs, and technicians and workers, which has rationalized the wages for various jobs.

f. We have steadily created new forms of distribution based on production operating features. We have made widespread use in recent years of hourly wages, various forms of piece-rate wages, deducted-percentage wages, fluctuating wages, contract wages, and various kinds of efficiency wages, while experimenting with forms, such as job wages, job-grade wages, job-structure wages, and job-performance wages. These more diverse and flexible forms have brought wage incentive and regulation functions into fuller play. Our administrative institutions have instituted structured wages based mostly on job type.

g. These reform steps have begun to take effect, and our reform thinking has begun to evolve. Our key wage distribution reforms in areas, such as devolving authority, regulation and control, and linking (wages to efficiency), have begun to show clear results. The rather unscientific wage distribution reform pattern that we put forth in 1986 of "three independents and one tax" (i.e.,

independent management decisionmaking power, independent responsibility for both profits and losses, and independent distribution, with one tax on extras), has been gradually replaced through practice in recent years by a new one of "government macroeconomic regulation and control, graded and classified management, and independent enterprise distribution." The establishment and perfection of this pattern has been of crucial significance to our furthering wage reform.

In addition, while giving consideration to the interests of the state, enterprises, and workers and reaffirming the principle of distribution according to work, we have also achieved a certain amount of success in areas, such as enhancing enterprise management, improving economic efficiency, speeding up production, and stabilizing the big picture.

In short, we have made the following four breakthroughs in a decade of wage reform: 1. In management, we have broken free from the wage management system that was highly centralized with centralized responsibility and distribution, and gradually established a new graded management system. 2. In distribution, we have broken with the old equalitarian order of everyone eating out of one big pot, adopted the method of linking wages to efficiency, and reestablished the principle of distribution according to work. 3. As to form, we have broken away from the single form that was applied indiscriminately, and created flexible and diversified new forms. 4. As to forces, we have broken out of the confines of our old rigid wage operation mechanisms, and begun to establish new wage operation forces of independent distribution decisionmaking power, which link distribution to production and reward to work.

## B. Basic Experiences

In various regions, sectors, and enterprises, we have accumulated the following basic reform experiences:

1. We have fully affirmed independent enterprise decisionmaking power as the premise for successful wage reform. Expanding enterprise decisionmaking power is a prerequisite for wage reform, because enterprises are the wage operation base and focus of wage relations rationalization. As wage reform within enterprises can be carried out only when enterprises have the necessary independent distribution decisionmaking jurisdiction, fully respecting enterprise independent decisionmaking power based on enhanced government macroeconomic regulation and control is the precondition for giving enterprises independent distribution decisionmaking power.

2. We have explored the wage reform model of planned economy combined with market regulation as our wage reform direction. Even though our current linking of payrolls to economic efficiency is still imperfect, it is the right direction because it suits distribution to production, more closely integrates worker pay with enterprise economic conditions, drives enterprises to improve their economic efficiency, and speeds up the revitalization of

distribution within enterprises and the establishment of new capital generation forces, while making enterprises establish self-restraint forces and the state establish macroeconomic regulation and control mechanisms.

3. We have found that the key to wage reform success is reaffirming and practicing the principle of distribution according to work, by doing away with equalitarianism. While the critical problem in our wage system after the Great Leap Forward in 1958 was that it deviated from distribution according to work, the current key problem is that distribution according to work is not yet being practiced fully.

4. Scientific work evaluation is the basis for successful enterprise wage reform. As distribution according to work can only be an empty slogan without a solid foundation, our wage reform efforts must be focused on drawing up scientific evaluation criteria (especially for work quotas), accumulating accurate statistical data, and establishing a strict proficiency assessment system. Capital Steel has achieved good results by quantifying, standardizing, and systematizing its pay criteria, and through changing from negotiated to calculated wages and bonuses.

5. Bringing the incentive and regulatory functions of wages into full play is our key wage reform task. This means mostly appropriately widening the pay spread, so that pay becomes more suited to work and increasingly rational. The normal operation of these two major functions of incentive and regulation should be seen as indications of having stimulated the initiative of all workers and relatively stabilized the ranks of workers in all jobs.

6. Creating flexible and diversified distribution forms based on enterprise production operation characteristics and work category features is a key link in wage reform. In our reforms, we have created many new distribution forms suited to industrial and work category features, which have played a key role in helping us achieve real distribution according to work. For instance, Capital Steel's diversified assessment methods and incentive reward forms, such as bonuses, fluctuating wages, and yearly-rate wages, have given it very strong incentives that have played an outstanding role in bringing the initiative of its workers into full play, enhancing its workers' sense of responsibility as the masters of their enterprise, and improving its economic efficiency.

7. In implementing the principle of distribution according to work, strengthening our political and ideological indoctrination is the guarantee of successful wage reform. As the rationality of the differences reflected by distribution according to work are relative, and the public is still widely infected with the idea of equalitarianism, our reforms could not be carried out successfully or achieve their desired results without being guaranteed by the necessary political and ideological indoctrination. Surveys show that in addition to conscientious implementation of the principle of distribution according to

work, thorough and meticulous ideological indoctrination has also played a key role in all of the units that have carried out wage reform successfully;

8. Policy guidance and legal standardization are successful wage reform conditions. In converting macroeconomic regulation and control from direct to indirect means, we must pay attention to policy guidance and legal standardization of enterprise independent distribution actions. Shanghai Municipality has taken a softer line in its macroeconomic regulation and control of wages, by issuing one strong policy guidance document a year, while not engaging in concrete intervention, and fully respecting enterprise independent decisionmaking power. Sichuan has paid more attention to legal restraints, by promptly studying problems as they arise, and issuing the relevant rules and regulations to standardize enterprise independent distribution actions. Both places have achieved good results.

## II. Current Problems and Their Causes

### A. Major Existing Problems

While we have achieved marked successes in our decade or so of wage reform, we have suffered from many conflicts and implementation difficulties. Our wage reforms are now facing the following major problems:

#### 1. Unsound Policymaking Mechanisms

a. Our wage reform guiding ideology is still not very clear, with an inadequate understanding of socialist wage essential characteristics, functions, and economic leverage, so that our reform orientation is uncertain. Glaring examples of this were seen in our 1985 related reform and our 1989 general adjustment, which did not adhere to distribution according to work, deviated from the spirit and demands of the "CPC Central Committee Resolution on Economic Reform" (abbreviated hereafter as Resolution), and did not strengthen wage incentive functions, but rather used equalitarianism to shake the effective wage reform successes that had been achieved within enterprises.

b. In wage growth, we have never dealt well with the relations between production and distribution, and we have not established moderate and balanced growth forces so that wages can grow along with national income and labor productivity. Our average real wage growth in recent years shows that such normal growth forces have still to be established and perfected. While our average real wages grew at an average rate of 3.3 percent a year from 1978 to 1989, this rate was 14.7 percent for 1986 and less than 2 percent for the last five years, during which period real wages actually decreased at times, which shows that mechanisms for wage stability, coordination, and regular growth have not yet been established.

c. We have not solved the problem of our lack of a scientific basis for wage policymaking, which is still subject to the restraints of traditional ideas at all levels. While adhering to distribution according to work and

opposing equalitarianism are the keys to the success of China's wage reform, as we have already stated above, the basic wages established in our new wage system in 1985 were not based on distribution according to work, but rather institutionalized equalitarianism. While the Resolution clearly stated that pay grades and wage spreads were to be widened, our reform not only narrowed them instead, but also in 1985 after some years of large price increases, improperly lowered the highest wages in certain systems that had been set by the state in 1956 and acknowledged for three decades, which not only lacked a scientific basis, but also had a bad impact both at home and abroad.

d. Our wage policymaking system is in chaos. Labor personnel departments in charge of wages have no jurisdiction over wage reform policymaking (such as to plan adjustments of wage growth and wage relations), state revenue overlaps with labor personnel so that what the state revenue sector says goes, and lateral ties that are related to wages have long lacked authoritative coordination bodies to harmonize relations among all parties (while such bodies have finally been set up in central organs recently, they have still not been established at the local level). Policies came from so many directions in preceding years that the decisionmaking system was in chaos (for instance, family planning and science committees could issue direct orders to deduct wages from those who had more children than allowed or add to the wages of those who made special scientific contributions), which led to reports of wage policymaking problems, such as it being unscientific or uncoordinated.

## **2. A Less Than Ideal Display of Wage Incentive Functions and Rampant New Equalitarianism**

The wage spreads that many enterprises had widened through reform to realize distribution according to work and eliminate equalitarianism were narrowed again by our 1985 related reform and our 1989 general adjustment. This weakened the wage incentive and regulatory functions, caused some wage cadres to lose faith in wage reform, and was one of the key factors in our economic efficiency decline in recent years.

## **3. Rocky Wage Relations**

While our reforms have solved some of the most glaring problems left over from our pre-reform wage relations chaos, they have also produced certain new conflicts, such as equalitarianism coexisting with too large income disparities, covert income expansion, and distribution inequalities within the state ownership system not only not having been eliminated, but having gotten worse instead. Problems, such as new forms of pay being reversed for mental and manual labor, and "general terracing," are severely affecting wage relations and

dampening the initiative of some workers. The wage relations that still need to be rationalized are mainly as follows:

a. The "linking of wages to efficiency" is still not rational enough, and must be improved. Certain nonlabor factors, such as prices, planning, and policy, have a big impact on enterprise economic efficiency, but are still certainly not being excluded, while others are hard to exclude, which is creating inequality. Targets are too single-purpose, with bases and fluctuating percentages being unscientific in that their setting takes into account only vertical but not lateral relations, which results in "taking more from the most efficient." Linking is haggled over, with links being set too low or too high, responsibility for profits but not losses when fulfilling promises, and fluctuating percentages not being strictly controlled, so that wage growth in some enterprises far exceeds that of national income and labor productivity. Wage sources are chaotic, with covert income coming in a multitude of names.

b. The wage relations between government institutions and enterprises are out of order. While it may be feasible institutionally for government institutions and enterprises to have different wage systems, they are both state-owned units, so that different wage levels for similar types of employees is bound to lead to conflicts. The currently too low income of government cadres is bound to create instability, declining quality, and low efficiency among the ranks of cadres, which affects the normal functioning of the government.

c. The reckless issuing of bonuses and material objects has increased covert incomes. This has slanted income distribution toward the individual on one hand, while creating large income disparities within the state ownership system on the other. Moreover, most of the per-worker distribution does not contain incentives, which affects employee unity and keeps initiative from being brought into full play;

## **4. An Irrational Wage Structure**

a. In our structured wage system, some basic wages are only 40 yuan a month, which is basically unable to meet minimum living costs. Even more importantly, while wages are a form of realization of distribution according to work, so that their key factor must be their relationship to the amount of work done by workers, basic wages are actually a type of social welfare guarantee with no theoretical basis. In actual practice, this means equal distribution of limited wage funds, which weakens the basis of distribution according to work, and artificially saps the wage incentive function.

b. Wages based on seniority also lack a theoretical basis. As accumulated labor, wages must always be higher for those with more seniority than for those with less, which shows that accumulated labor is reflected in job or pay grade. How could this not lead to duplication? If there are actually a few workers with long seniority but low pay

grades, this is a normal, rational, and unavoidable phenomenon as far as the principle of distribution according to work is concerned. As China's distribution system contains both wage funds for distribution according to work and welfare funds, the problem of senior workers whose wages are truly too low to meet their living costs should be resolved by subsidies from welfare funds. But wage funds for distribution according to work should not be paid out as welfare funds.

c. In our wage structure, the proportions of standard to supplementary wages and fixed to fluctuating wages should be worked out properly. There is currently too large of a gap between standard wages and real incomes, which results in a reverse relationship between them. For instance, while some warehouse workers earn standard wages of only some dozens of yuan a month, but receive bonuses of more than 200 yuan a month, putting their ratio of fixed to floating wages at 1:5, other leading cadres earn fixed wages of 200-300 yuan a month, but receive bonuses of only 15 yuan, putting their ratio of fixed to floating wages at 1:0.05, which structure is quite irrational. This is one of the roots of the current disproportionate pay for mental and manual labor, a glaring manifestation of unequal distribution in the state-owned economy, and a wage relations and institutional problem that is in urgent need of being resolved.

#### **5. Weak Macroeconomic Regulation and Control, Even to the Point of Being Completely Out of Control**

a. Wage growth is unsteady, with large fluctuations. Since 1978, our real payroll growth has fluctuated as much as 20.9 percent a year (rising 18.1 percent in 1984 and falling 2.8 percent in 1989). Our per-worker real wages have grown as much as 19.7 percent a year (rising 15 percent in 1984 and falling 4.7 percent in 1989), with the most conspicuous fluctuations being in 1988 and 1989 when they fell 0.8 percent and 4.7 percent, respectively, and then in 1990 when they rose a sharp 9.2 percent.

b. Our wage growth structure is irrational in that non-standard wages have increased sharply. This can be seen in the following three areas: 1. Bonuses have grown faster than standard wages. In the 13 years from 1978 through 1990, worker bonuses, subsidies, and allowances increased at an average rate of 26 percent a year, or more than 15 points higher than the average growth rate for standard wages of 10.7 percent a year. 2. Extra-wage income has increased faster than wages. Worker income in addition to payrolls, which averaged only 173 yuan per worker in 1985, had shot up to 561 yuan by 1990, for a 220 percent increase, and an average increase of 26.5 percent a year, which was actually almost twice as fast as the 13.3 percent average annual growth of wages. 3. Incomes from welfare benefits have grown more than cash wages. By 1990, workers received from their units and the government indirect welfare benefits and hidden subsidies of about 89.2 billion yuan, or equal to 37.8 percent of payrolls, with extra-wage income accumulating to about 1.8 times standard wages, and to two

times standard wages if enterprise welfare benefits are included. This low-wage, high-subsidy, broad-welfare-benefit individual consumer goods distribution order has sharply weakened the incentive function of distribution according to work, and formed a low-incentive, semi-supply-guarantee type individual consumer goods distribution system, which is actually an equalitarian one whose evolution was linked to non-standard wage growth being out of macroeconomic control (causing the increase in covert incomes). In addition, in urban income growth, incomes have increased faster for nonworkers than for workers, creating large income gaps among members of society and social distribution inequalities, all of which are related to ineffective macroeconomic regulation and control.

#### **6. Incomplete Reforms**

Wages as economic leverage must objectively be tied up with other economic sectors, such as labor, social insurance, state revenue, taxation, banking, pricing, and planning, which are indispensable external factors in wage reform. For instance, from a purely financial viewpoint, state revenue is involved in or determines wage reform, so is bound to play a role in hindering it; from a purely business management perspective, banks find it very hard to strictly exercise their oversight function; and taxation must rectify the impact of reform on individual incomes or have weak regulation and control forces.

Relations between wages and prices are particularly close, with prices affecting wages in the two areas of economic efficiency and living costs. Price distortion that distorts enterprise economic efficiency is a key factor in the irrational wage gaps among enterprises. An even more outstanding issue is how to handle the relations between wages and prices during periods of price reform. While some experts say that linking wages to prices creates an upward spiral (with wages necessarily growing along with price increases), not linking them lowers wages, in that real wages decrease as prices increase, which over time is bound to sap worker initiative, so that they should be linked. While it is open to study whether they should be linked overtly or covertly, we favor covert linking, by setting critical limits, with nonperiodic corrections when these critical limits are exceeded. Overt linking is too sensitive, in that it is not very significant when there are not large fluctuations, but can easily create price-wage spirals when prices are fluctuating sharply, which are detrimental to economic, political, and social stability.

In short, our most glaring current wage reform problems can be summed up in the following three major areas:

a. Wage distribution inequality: This can be seen mainly in the following two areas: 1. Severe equalitarianism: a. "The demand that promotions and bonuses be equal for all" strengthens the wage guarantee function, while weakening the wage incentive function. b. Covert wages and welfare income are equalitarian. c. The increasingly smaller wage spread deviates from the clear direction in the Resolution to appropriately widen the wage spread. d. Structured and basic wages institutionalize equalitarianism and undermine the principle of distribution according to work. 2. Severe income disparities and

reverse phenomena: a. There is a large difference in average wages (including standard wages plus subsidies and bonuses) among enterprises, which was only about 30 percent before 1980, but has more than tripled since 1989. b. The industrial order is severely out of proportion, with wages being higher in commercial than industrial enterprises, higher in manufacturing than in raw materials industries, and higher in small than in large key enterprises. c. Wages are lower for mental workers (especially government cadres) than for manual workers.

b. Covert wage growth: This is a mess that has developed since 1984 about which "it is forbidden to speak and nothing is clear or controllable," and in which "the bold get the best of the timid." There is a vicious cycle of upward spirals, which has put wage funds far overplan, and has not only not played an incentive role in worker initiative, but instead has had the negative impact of corrupting the ranks of workers.

c. A loss of macroeconomic control: This can be seen mostly as follows: 1. Overall control has weakened, with payroll plans not being adhered to strictly, and above-plan parts being accepted just the same as planned ones. 2. Average wage growth is divorced from labor productivity. 3. Enterprise wage growth is out of control, with independent distribution leading to short-sighted actions and even rising incomes despite declining efficiency. 4. Wage relations are in chaos.

### B. Causes of These Problems

These problems have the following diverse causes: 1. As to guiding ideology, we have emphasized the guarantee function of wages to the detriment of their incentive function, by covertly preserving equal distribution instead of taking vigorous steps to eradicate equalitarianism, which has made it impossible for distribution according to work to take effect. 2. Theoretically, we have said that state distribution of enterprise national income is distribution according to work and opposed general equalitarianism among enterprises, while advocating particular equalitarianism within enterprises, by regulating and controlling payrolls alone without emphasizing the rationalization of distribution within enterprises or easing lateral wage regulation, which has caused wage relations chaos within the system of state ownership, and undermined the key principles of distribution according to work of "labor and pay equality" and "equal pay for equal work." 3. System defects, such as a lack of unified planning for wage reform, incomplete macroeconomic reform, unscientific macroeconomic policymaking, an unsound regulation and control system, ineffective regulation and control measures and methods, and a lagging legal system, have also severely hampered the success of wage reform. 4. As to policy, our 1985 related reforms and 1989 general adjustments promoted new equalitarianism and were unsuccessful.

### III. Basic Thoughts on Furthering Wage Reform

A. We need to correct our guiding ideology and clarify our reform direction. Based on the above analysis, we

believe that the key to furthering wage reform will be resolving guiding ideology issues. The basic causes of the ineffectiveness of our wage reforms over the past dozen years have been a lack of scientific theoretical guidance and insufficiently correct reform guiding ideology and direction. This can be seen mainly in the following two areas:

On one hand, we have not fully understood the importance of wage reform or its position and role in overall economic reform, and we have certainly not elevated wage reform to value its fundamental impact on the success or failure of our overall economic reform. As we have long regarded wage reform as simply a step to be emphasized in relation to price reform, our wage reform has lacked effective leadership and planning.

On the other, we have not clearly understood the basic nature and functions of socialist wages. We have long regarded socialist wages as a way to maintain worker basic living costs. In particular, we have emphasized the guarantee function of wages to the detriment of their incentive function, which is the most basic source of the equalitarianism in our wage theory, system, policy, and understanding.

B. We need to persistently implement the objective demands of the principle of distribution according to work, by truly guiding our wage reform according to the theory of distribution according to work in the initial stage of socialism as follows: 1. We must better and more genuinely link enterprise worker wages and bonuses to enterprise economic efficiency. 2. We must widen the wage spread and pay grades within enterprises to fully reflect the principles of "rewarding diligence and excellence, penalizing indolence and mediocrity, more pay for more work, and equal pay for equal work." 3. We must fully reflect the differences between mental and manual labor, complex and simple work, and skilled and non-skilled work. In particular, we need to change the current too low pay for mental labor. 4. Our wage reform principle for government organizations and institutions should be to closely tie worker wages to individual responsibilities and work achievements. 5. While reforming the wage systems for enterprises and government organs and institutions, we need to also speed up personnel system reform. This will mean taking vigorous steps to combat both equalitarianism and too large income disparities, so that distribution according to work can truly take effect through wage reform.

C. We should suit our furthering of wage reform to our national conditions, by firmly adhering to the demands of a planned commodity economy. In our wage systems, operations, and management, we need to explore and establish wage mechanisms and systems that combine planned economy with market regulation. In our wage levels, relations, forms, growth, and regulation and control, we must reflect this principle in all areas. Our new wage system should actually realize and particularize mechanisms and systems that combine planned

economy with market regulation in the field of individual consumer goods distribution.

D. The key link of our economic reform is to enhance enterprise vigor and vitality to improve enterprise economic efficiency. The key link of our wage reform is to stimulate worker initiative to raise wage efficiency and realize efficient wages. Thus, in wage management, we must fully respect independent distribution decision-making power within enterprises, and enterprise independent decisionmaking power over wage distribution within the limits of state regulation and control, so that we can gradually establish and perfect a wage growth mechanism within enterprises with a combination of powerful self-incentive and self-restraint forces.

E. We need to enhance our wage reform overall planning, by developing and improving our wage policymaking system. We must make our wage policies more scientific, democratic, standardized, and legal to reduce decision-making errors as much as possible. We need to set up and gradually improve an authoritative body for national, local, and departmental wage policy and management, which can resolve in a coordinated way all national, local, and departmental wage reform conflicts and issues, in an attempt to make our policies realistic, coordinated, more stable, and complete to eliminate the chaos resulting from policy being made in too many places.

F. To enhance our macroeconomic management, regulation, and control system, improve our regulation and control methods, perfect our regulation and control legislation, and strengthen our graded and classified management, we need to clarify the responsibilities and jurisdictions of control departments at all levels, while strengthening classified management and overall balance. While enterprises, institutions, and government organs each have wage distinctions and respective wage systems, we must not allow too large disparities in the wages of similar categories and ranks of personnel in any units within the system of state ownership. In future wage regulation and control, we need to enhance our regulation and control through a combination of policy restraints and economic means and strengthen the effectiveness of our legal measures to basically change the weak and powerless state of our regulation and control.

In macroeconomic regulation and control, we must not only control overall quantities, but must also pay attention to structural regulation and control. Practice has proven that structural lack of control is a key factor in overall lack of control. For instance, our major lack of wage control in recent years has not been in standard wages, but rather in fluctuating wages. Our regulation and control priorities are overall regulation and control and average real wage growth regulation and control. Our current focus is as follows: 1. Based on the four factors of national income, labor productivity, price increases, and labor supply and demand, we should exercise overall regulation and control of wage growth in all areas and for all categories throughout the country. 2.

We should harmonize our major wage relations. This means rationalizing the wage relations among regions, industries, enterprises and government institutions, and all categories of personnel, as well as adjusting the individual income disparities among all types of ownership. 3. We need to do a good job of regulating and controlling the relations between wages and efficiency, by striving for fairness and rationality. 4. We need to improve our wage, bonus, and individual income taxes. Our starting tax rates are now too low, so should be appropriately raised. Moreover, we need to make collections stricter to solve the severe current tax evasion problem. 5. We need to strictly enforce revenue discipline, by standardizing wage source channels and enhancing bank oversight functions. Taxation and banking are two major hubs of macroeconomic wage regulation and control, so that how their functions are exercised has a huge impact on macroeconomic wage regulation and control.

G. Enterprises should gradually reform their wage system to the major form of wages based on job performance. This job performance wage system is a basic enterprise wage system of determining pay for labor based on the principle of distribution according to work, the premise of enhanced macroeconomic regulation and control, evaluation of key labor criteria, such as job skills, strengths, and qualifications, wages paid according to job performance, and real worker contributions. The job performance wage system is a product of many years of reform of the enterprise basic wage system, and is characterized as follows: 1. It fully reflects work differences, with job performance wages being in two parts and three units (i.e. basic and supplementary wages, and job skills, strengths, and qualifications), and basic wages including the two parts of job and skill wages. Such a makeup more fully reflects the unity of differences in the three labor categories of labor potential, mobility, and stagnation, and is more able than the graded wage system to express the demands of distribution according to work. 2. It reflects labor and pay difference trends. The job performance wage system is characterized by change along with changes in jobs and performance, and practices the principle of "varying pay for various jobs and skills," which corresponding relationship ensures that pay for labor is always in a state of dynamic balance. 3. It ties pay to efficiency. The job performance wage system reflects the features of distribution according to work under commodity economy conditions, by reflecting work differences through market testing and economic efficiency, and through adapting wage income not only to work differences, but also to economic efficiency. This helps to establish profit forces that promote production within enterprises. 4. It provides a scientific basis for strict job proficiency assessment, which is its key advantage over our traditional wage system. It achieves work evaluations through job evaluations, by quantifying various types of work to make them comparable, which standardizes distribution according to work, provides a scientific basis for strict job proficiency assessment, and reduces distribution

conflicts within enterprises. 5. It promotes the enhancement of basic business management.

As the job performance wage system is neither flawless or necessarily suited to all enterprises, we should respect the right of enterprises to choose their own basic wage systems. Enterprises that practice the job performance wage system still need flexible and diversified supplementary forms to promote its realization.

H. We should continue to explore the wage management system of "state regulation and control, with graded and classified management, and independent enterprise distribution." State regulation and control involves mainly overall and structural regulation and control, and coordination of major wage relations. Macroeconomic regulation and control is aimed at adapting payrolls to the level of development of the productive forces and consumer goods supply, suiting wage growth to national income growth, bringing average wage growth into line with increases in labor productivity, and exercising effective regulation and control over payroll growth increases and wage relations order. Our regulation and control form should be a combination of direct and indirect regulation and control, with diversified means, and a combination of targeted and random regulation and control, with mostly targeted regulation and control.

Both domestic and foreign experience shows that we must base our macroeconomic regulation and control on the inherent restraint forces within enterprises. Effective macroeconomic regulation and control will require above all the establishment of wage growth restraint mechanisms in enterprises. Our current microeconomic basis for effective wage macroeconomic regulation and control is an improved system of "linking wages to efficiency," the establishment of a more efficient wage system, and a better wage cost accounting system.

Independent enterprise distribution is a necessary condition for enterprises as commodity producers and managers, an essential factor in workers being the masters of their own destiny, and a prerequisite for distribution reform within enterprises. The keys to independent enterprise distribution are that it should be based on a combination of incentive and restraint forces and premised on strict observance of national principles, policies, plans, and laws.

As this new system has just begun to be applied, our current major tasks should be to resolve our macroeconomic loss of control, the chaos in our graded and classified management policy, and the shortsightedness in independent enterprise distribution, the key to which remains the establishment of enterprise wage growth restraint forces. As incentive and restraint forces are quite strong in both our progressive guaranteed revenue payment and contract management systems, they should also be an effective way of easily bringing the right balance to wage growth. In short, the establishment of a

mechanism to restrain independent wage distribution by enterprises is a pressing issue that must be resolved to further wage reform.

## TRANSPORTATION

### Northwest Constructs Air, Road, Rail Facilities

OW0409101492 Beijing XINHUA in English  
0851 GMT 4 Sep 92

[Text] Urumqi, September 4 (XINHUA)—The autonomous regions and provinces in northwestern China have taken steps to strengthen the construction of modern transport facilities to meet the increasing needs of opening to the outside world.

The Xinjiang Uygur and Ningxia Hui Autonomous Regions and Shaanxi, Gansu, Qinghai Provinces in the northwest China is now playing an important role in China's opening to the West.

According to local officials, the present out-of-date transport facilities have hindered implementation of the opening policy and improvement is a top priority for economic construction in the autonomous regions and provinces.

The local governments have worked out a series of plans for improving the transport facilities and begun to implement them.

The Northwest Airline will double its transport capacity by buying and leasing more aeroplanes. In addition to the service to Hong Kong opened in July, Xian Airport will open two direct flights to Singapore and Nagoya in Japan using chartered aircraft.

Xianyang Airport in Xian has 38 routes to 26 destinations which makes it the fourth busiest airport in China after Beijing, Shanghai and Guangzhou.

The Lanzhou Airport in Gansu Province will also open a flight route to Hong Kong this year.

Xinjiang Airlines leased two IL-86 350-seat aircraft from the Republic of Uzbekistan.

In addition to the newly-opened international flight route to Alma-Ata, the capital of the Republic of Kazakhstan, Xinjiang Airlines will also open a service between Urumqi and Tashkent, the capital of the Republic of Uzbekistan.

With several large enterprises in the plane manufacturing industry, such as the Xian Aircraft Industry Corporation and Shaanxi Aircraft Manufacturing Company, Shaanxi Province has established a complete aeronautical industry including research, design, manufacturing and flight testing.

Meanwhile, Qinghai and Gansu Provinces are making efforts to establish their own local airline companies.

The construction of the Lanzhou-Xinjiang railway with a total investment of 55 million U.S. dollars will begin in September and is expected to be open by the end of 1995.

The 500-km Baoji-Zhongwei railway with a total investment of 37 million U.S. dollars is now under construction and will be completed in 1994.

With the electrification of the Lanzhou-Wuwei and Shizuishan-Lanzhou rail sections as well as increasing capacity on the section between Tianshui and Lanzhou, the transport facilities of the second Asian-European continental bridge will be greatly improved.

After the completion of the double-track line between Lanzhou and Xinjiang, transport capacities will increase from 12 million tons to 50 million tons and the number of passenger trains will increase from 12 to 30.

As a result, the total 4,115-km rail line of the second Asian-European continental bridge will be operational.

Construction of more highways in northwestern China will be a major breakthrough.

The construction of second-grade highways leading to the ports of Horgos, Turgate and Alataw Shankou in Xinjiang with an investment of 2.6 million U.S. dollars, will be completed by the end of this year or early next year.

Highway improvements in the Gansu corridor has allowed average speeds to increase from 50 km per hour to 85 km.

The construction of the 145-km Xian-Baoji highway began in July. This highway, designed for speeds of up to 100 km per hour, will be completed by the year of 1995.

In addition the Xian-Lintong express highway has been completed while the Lintong-Tongguan express highway is under construction. They form the basis for a transport artery crossing the central Shaanxi plain.

## AGRICULTURE

### XINHUA Commentator on Improving Agriculture

OW1109015492 Beijing XINHUA Domestic Service  
in Chinese 0305 GMT 7 Sep 92

[XINHUA commentator's article: "High-Yield, High-Quality, and High-Efficiency Agriculture Should Be Given Equal Emphasis"]

[Text] Beijing, 7 September (XINHUA)—Taking the cue from the National Meeting To Exchange Experiences in Achieving High-Yield, High-Quality, and High-Efficiency Agriculture, China's agricultural industry's major historic turn from the singular pursuit of output quantity to the development of high yield, high quality, and high efficiency has begun systematically in rural areas in various localities under supervision. Certain

major food grain production areas have attained good results in their initial efforts.

Viewing the entire nation as a whole, conditions in different localities are dissimilar, and the work situation also varies. Some symptoms are worth paying attention to: 1) Impatience. According to feedback, to raise economic efficiency, food grain departments in some localities procured only high-quality rice and refused to procure lower-grade, early-season rice. This has caused numerous peasants who cultivate early-season rice to suffer a lack of funds to manage late-season rice as a result of early-season rice sitting in the storage yard. 2) Having sole concern for efficiency in disregard of all others factors, and growing only what brings good monetary returns to the neglect of food grain production. 3) High-quality agricultural products at low prices. While peasants are required to grow high-quality crops, they are not allowed to sell their products at higher prices; as such, peasants actually suffer losses instead of benefiting from their efforts. 4) Backwardness in processing and packaging. Being involved only in the production of primary products and relying on primitive packaging does not bring about high efficiency, even though the grain types are of superior quality. 5) Bringing in new grain types without considering local conditions. Sometimes either the soil is not suitable for the seedlings or the product is not required in the market, thus affecting peasants' production initiative.

The various situations mentioned above proved that to realize high-yield, high-quality, and high-efficiency agriculture, all three elements must be formulated into an integrated organic system with equal emphasis. High yield primarily means that the effective supply of major agricultural products such as grain food and cotton must be assured. This is a fundamental position that cannot be altered; the stress on high quality is to counter the tendency toward pursuing high output at the expense of quality in the era of a commodity economy. Besides, high quality is also the masses' natural demand on agricultural products in the commodity economy era; high efficiency is the basic goal of all commodity traders as well as China's ultimate goal in agricultural development. Although the intrinsic meaning of the three elements are different, however, they are closely related and interconnected in the formulation of the overall development strategy for China's agricultural sector in the 1990's.

Realizing high-yield, high-quality, and high-efficiency agriculture is a large-scale systematic project requiring the cooperation of numerous departments and the mobilization of all channels. It requires China's agricultural sector to strive for quality and efficiency on the basis of steady growth in overall quantity. Both high quality-low yield and low quality-high yield are not acceptable. To achieve the goal, competent departments in all localities should, in the process of adjusting the product mix, make full use of the forces of market mechanisms to suitably adjust upward the prices of high-quality agricultural products and make resolute efforts to realize good prices

for high-quality products. The peasants must be made to see that high-quality agricultural products can be sold at good price levels to fully mobilize their initiative to grow quality crops; seedling control and research departments must do a good job in developing high-quality seeds in a timely manner to overcome a shortage of quality seeds in certain areas; and efforts should be made to transform the obsolete and backward agricultural product-processing facilities and primitive packaging, and to attain the highest possible efficiency level by increasing value-added processing and improving packaging technology.

When readjusting the agricultural product mix, all localities must pay close attention to actual local conditions to decide what kind of crops are suitable for local soil types. They must also consider the local planting or farming habits and the peasants' level of acceptability. Peasants in many localities have just recently overcome basic food and clothing problems, and they are unable to accept very rapid changes; in the process of change, we should proficiently lead in accordance with the actual situation through demonstration, and we should not be impatient or authoritatively force compliance.

Realizing high-yield, high-quality, and high-efficiency agriculture is an arduous task that would benefit China in the long run. As long as all localities earnestly work toward farming-processing, agricultural-industrial-commercial and internal-external trade, and the integration of agriculture, science, and education, there is hope that China's agricultural industry will scale new heights in the 1990's.

#### Report on Reactions to Grain Price Increase

92CE0655A Nanchang JIAGE YUEKAN [PRICING MONTHLY] in Chinese No 6, 5 Jun 92 pp 35-36

[Article by Hu Zhiping (5170 1807 1627), Jiang Lili (5592 7787 7787), and Tang Niya (0781 1200 1246): "Reactions and Predictions in the Wake of the Adjustment of Grain Prices"]

[Text] The State Council decided to raise the state-selling price of grain beginning 1 April of this year; at the same time as the grain price-adjustment, every cadre and staff member was given a monthly subsidy of five yuan. The adjustment of grain prices plays an active role and has realistic significance in lightening the financial burden on the state, guiding residents of cities and towns to conserve grain, raising the set-price of grain, and arousing the enthusiasm of grain farmers for production. However, because grain is the most basic daily necessity of the people, therefore grain price adjustment and increase of subsidies, there must arise all sorts of reactions in different units and among the masses.

#### I

The day after the decision on grain price-adjustment was carried in the newspapers, we went to administrative organs, factories, stores, hospitals, schools, and streets to

have broad contacts with people from all circles of society, and collect reactions to the grain price-adjustment and observe the market changes.

#### A. Cadres and Staff Members Basically Remained Silent

After adjustment of grain prices was made public, there were no obvious changes at the markets. Neither has there been any panic-purchasing as occurred last year when grain prices were adjusted. In administrative organs, production and business departments, and at all fronts of social services, we hardly heard cadres and staff members talk about the adjustment. In our discussions with some cadres and staff members we found that, though they could not understand why there had been two large-scale price adjustments within one year, they still remained silent. There are approximately five reasons for this silence. First, adjustment of grain prices is the general trend and since it had been done, complaining would not bring back the original situation. Second, at the beginning of the year there already was word that grain prices would be adjusted. So what should be bought had been bought. Additionally, since summer was about to begin and too large a quantity of grain would lead to worm festation, mildewing, and rotting. Loss would outweigh the gain. Third, as there have been changes in living structures, grain consumption has been reduced year after year. In addition, the government would give a monthly subsidy of five yuan per capita. Fourth, the fact that grain is valuable reminds people to pay much attention to thrift. People would have no trouble buying a couple of jin of grain less every month. This would subsequently lead to a reduction of expenditures. Fifth, in recent years cadres and staff members have enjoyed substantial increase in income. They need not be as "stingy" in spending as they were in the past. They would not mind spending a few yuan more for the purchase of their monthly grain rations.

#### B. Residents of Cities and Towns Complained

Subsidizing the adjusted grain prices this time was determined and computed by an average supporting co-efficient of 1:1.6. But in actual life, families whose supporting co-efficient exceeds 1:1.6 make up about one-third. Some families' supporting co-efficient exceeded 1:1.2. Residents who did not have formal employment and those whose supporting co-efficient was great reacted strongly to the adjustment of grain prices. From last year's first-time grain price adjustment to the current adjustment within only one year, the first-class polished long-grained nonglutinous rice was raised from .25 yuan per kilogram to .80 yuan per kilogram. The first-class polished round-grained nonglutinous rice was raised from .28 yuan per kilogram to .94 yuan per kilogram. These were raised respectively 2.17 times and 2.36 times. Every month, each adult spends 8.58 yuan more for purchasing grain whose prices have been raised (based on calculation of a monthly ration of 13 kilograms). A number of families that have both old

and young would have to increase their monthly expenditures by about 45 yuan. Even if two persons work in a department, there ought to be an additional monthly expenditure of 23 yuan. This expenditure may be insignificant to high-income families, but for families depending solely upon salary, this is not an insignificant expenditure at all.

### C. Enterprise Units Bear Extreme Burdens

According to a certain county's prediction and computation, 2,760,000 yuan ought to be available as subsidies for the adjustment of grain prices (covering the period of 1 April 1992 to 31 March 1993). Of this amount, the county finance would bear more than 1,200,000 yuan and enterprises 1,560,000 yuan. The county textile mill has more than 3,200 staff members and would need 200,000 yuan as subsidies throughout the year. Taking into account the subsidies for last year's adjustment, the total would amount to 450,000 yuan. Over the past two years, cotton prices have been adjusted by 30 percent. Even though prices of cotton yarn and cotton cloth have been adjusted accordingly, the rate of achieving the adjustment goals has been very low due to the impact resulting from supply and demand at the market. As for the cotton spinning enterprises, even factors for cotton price increases could not be assimilated in the first place. The unexpected increase of 450,000 yuan as grain subsidies has really exceeded their enduring capacity. Price subsidies directly taken as part of the production costs together with wages cause insignificant impact to enterprises with good economic returns, but enterprises with poor economic returns would find it difficult to bear. When the market cooled in the fourth quarter of 1988, the number of enterprises that were facing production and business problems increased one year after another. In one particular county, at the end of 1991, about 40 percent of the county enterprises were facing obvious or latent deficits. These enterprises, say nothing of their inability to expand production (business), would be forced to give discounts to workers' wages or even stop issuing wages. Additional costs to support grain price subsidies would make them even more incapable of action. Since 1979, when prices of pork and 18 other types of nonstaple food were adjusted, a series of major price reform measures have been worked out. As a result, some price relationships have been put in good order. This has alleviated the financial burden on the state in subsidizing people's food and expenditures. Enterprises, however, have not been relaxed. According to one particular county's statistics, 42 yuan should be given to each staff member every month as subsidy for nonstaple food, meat, grain, bath, and haircut, making up about 30.7 percent of the total wages for the enterprises with ownership by the whole people and those with collective ownership in the county. Some responsible people of the enterprises said that the increases of labor productivity could not keep pace with the increases in wages and subsidies, and newly increased profits would be consumed by wage increases and subsidies.

### D. Grain-Consuming Trades Are Worry-Ridden

As for grain-consuming trades, the adjustment of grain prices gives these trades two more new burdens. On one hand, subsidies for grain ought to be given to staff members, and on the other these trades directly bear increased costs for raw materials. The increase of production costs heightened the sense of crisis on the part of the grain consuming trades. First, they fear that finished grain products with increased prices would not be accepted by markets. Last year the practice of supplying the manufacturers of popular grain products with grain at parity prices was abolished. Increased prices for finished products have not yet been implemented, and many enterprises are still maintaining their simple reproduction by way of small profits but quick turnover. After prices at fixed quotas for purchase and prices under state monopoly for marketing were adjusted at the same time, grain prices at the market are quite likely to go up just as the boat goes up when the river rises. In cases of disasters and poor harvests, grain prices are more difficult to control. With production costs rapidly increasing, enterprises engaged in soy sauce and vinegar production may have to be shut down. Second, the grain-consuming trades are concerned that they might be consumed by individual industrial and commercial business. Since processing industries for finished bean products and cakes do not require great investment, and equipment and techniques are extremely simple, individual production of these items has developed rapidly in recent years. When enterprises with ownership by the whole people and those with collective ownership enjoyed trade-consuming grain or subsidies by regulated funds for market prices, they were able to compete against individual entrepreneurs. When trade-consuming grain and subsidies were ruled out, the existence and development of these enterprises practically ran into endless difficulties. The reasons were: Individual entrepreneurs' workshops are connected with their stores, and their fixed assets are depreciated and not taken into account. Depreciation charges and repair charges of enterprises with ownership by the whole people and those with collective ownership account for approximately 4 percent of production costs. Production by individual entrepreneurs involves all family members whereas enterprises with ownership by the whole people and those with collective ownership have a great number of administrative personnel and support a great number of retired staff members. Enterprises must pay for these people's food, housing, and medical care. Individual entrepreneurs have neither workshop funds nor fees for enterprise management whereas charges for these two items in enterprises with ownership by the whole people and those with collective ownership accounted for 15-20 percent of the production costs. As individual entrepreneurs produce and sell things without proper registration, they could end up in tax evasion for business administration whereas enterprises with ownership by the whole people and those with collective ownership not only could not have tax evasion in their record of revenues and expenditures, but also ought to bear all

sorts of fees, fines, and apportions for raising funds imposed upon them at will. In addition, they still have to encounter various inspections, criticisms, checks before acceptance, and some other activities that waste money and manpower. In a word, the production of nonstaple food is really beset with crises.

## II

How severe the chain reactions actually are to the market due to the adjustment of grain prices and what impact it will bring on the existence and development of enterprises are questions with which the masses are very much concerned. In the light of the current economic situation, the supply and demand of market commodities, and changes in objective economic conditions, our predictions are more or less as follows:

### A. Commodity Prices Failed To Keep Pace With Others, Service Charges Went Up

What worried people the most as a result of the adjustment of grain prices was that commodities in great demand would go up in price as well. In recent years, the economy has been developing rapidly and the general demand and supply of society have been essentially balanced. The production of necessities for people's living in particular, has developed rapidly; markets have satisfied the demands for food, clothing, shelter, and transportation and there are no other commodities considered to be "in great demand." The impact of a stabilized market after the fourth quarter of 1988, the prices of household electric appliances have still not recovered. Price adjustments have not actually been implemented in the areas of cotton spun products, sugar, detergent, sweaters, and other basic necessities of life. Consequently, signs still hanging on doors of stores read "Profit Yielding Sales," "Bloodshed Auction," "The City's Lowest Prices," and so forth. Therefore, with the presence of the abundant material bases, supply meets demand, and the prices of living necessities of people, even though production and business enterprises have the subjective desire to raise, the objective conditions of opportunities, topographical advantages, and support of the people are not provided with at all.

Commodity prices have trouble going up and service charges are hard to predict. After the decision on the adjustment of grain prices appeared in the newspapers, the strongest reactions came from people engaged in the service industry. In large- and medium-sized cities there are a great number of barber shops, bathhouses, photo studios, and repair shops that are state-run or run by the collectives. Their service charges are under the control of local pricing departments or departments responsible for the business. Except for a few bathhouses and photo studios that are state-run and collective-run, individual entrepreneurs in the county seat and its affiliated towns and townships are playing the lead in all the other trades and have large numbers of workers from cities and towns with rationed supply of grain. After the adjustment of grain prices, owners of the service industry could not

receive subsidies for grain prices just as the in-service staff do from their own departments. The only way for them to take is to raise the service charge standards. In accordance with the actual situations of price management in the county seat and its affiliated towns and townships, none of the barber shops or photo studios carried out the set charge standards even though they were available, the service providers are on their own. Even few state-run and collective-run service departments charge by the standards set by individual entrepreneurs. Therefore, as the new grain prices appeared, service charges in the cities and towns unavoidably increased just as the boat goes up when the river rises.

### B. The Sale of Grain at State Prices Encountered Obstacles, Market Grain Prices Spiralled

That grain prices would be adjusted in 1992 was something everybody knew. Because speeches by leaders, newspapers, and publicity over broadcasting all mentioned that by 1992 there would be a major reform of grain prices, residents of cities and towns, afraid of the price increases, purchased each month what they were supposed to purchase, and as for the surplus from the past, they either bought for stock or sold the certificates. According to sample investigations, 94.7 percent of families have stored grain for consumption of more than three months, and 27 percent of these families have a stock that would last over half a year. As a result, grain at prices of state monopoly for marketing had limited transactions in the second quarter of the year. Along with the raising of the urban residents' consumption levels, they would pay certain attention to the demand for grain consumption. For example rice, transitions are being made from polished long-grained nonglutinous rice, hybrid polished long-grained nonglutinous rice to polished round-grained nonglutinous rice, and from stored rice to new rice. After the adjustment, the first-class polished round-grained nonglutinous rice will sell at .94 yuan per kilogram as opposed to .60 yuan per kilogram. This price almost approaches the market price. In grain production areas, this price is already slightly greater than that charged by grain farmers. In view of this situation, even when the third quarter comes and residents are in need of grain, but the purchasing direction would change from one single channel by state-run grain departments to multi-channels by markets and families of grain farmers. This determines that it would be very difficult for the sales volume by state-run grain departments to return to the level prior to the adjustment.

Would market grain prices immediately go up with prices of the planned grain already increased? According to investigations and analyses, it would take some time for market grain prices to go up, and the upwardness would be spiral rather than vertical. The reasons are: First, residents of cities and towns have some grain in stock and would not go to the market to purchase in the near future. Second, grain farmers have a great deal of surplus grain on hand, and they would be satisfied when they turn the grain into money, but would not refuse to sell the grain only because of disputes over a few fens per

kilogram. Third, in general there have been bumper harvests in recent years and the state also has a great stock of grain, any sudden changes at the market would result in great input of grain to keep the market prices down. Fourth, under the circumstances that market prices go up too much, the residents of cities and towns would naturally purchase from state-run grain departments instead of going to the markets. Fifth, grain-consuming units started to purchase from markets last year due to the waiver of their right to purchase grain as professional consumers. They would not add much pressure to the market as a result of the price adjustment. To synthesize the above-mentioned factors, in normal harvest years, the upward scale of market grain prices could not be excessively great and there would be a gradual upward process.

### **C. Increase of Grain Production Is Hopeful and Business Units Are Faced With Difficult Situations**

When prices for grain purchasing and selling are adjusted at the same time, the biggest beneficiaries are the grain farmers. Since 1979, there have been several adjustments of grain prices at fixed quotas for purchase. But each adjustment was small and the benefits resulted from the price adjustments did not make a deep impression on the grain farmers. Actually, the rising scale for grain purchasing prices could not keep pace with that of the cash crops and still stay in the lower valley of the entire price system of farming products, with particularly greater differences in prices at fixed quotas for purchase as opposed to negotiated prices and market prices. On the premises that prices of agricultural means of production gradually go up, various circles of society continuously increase their charges and apportions for raising funds imposed on agriculture, and the costs of production for grain exceed the prices at fixed quotas for purchase, even if there are bumper harvests, grain farmers would be willing to sell the grain at the prices at fixed quotas, let alone that the farmers' growing plans present a gradual tilt from grain crops to cash crops. Large-scale adjustment of grain prices at fixed quotas for purchase, basically approaching the level of negotiated prices, has solved the problem that grain prices at fixed quotas for purchase have been too low and enabled the pure benefits of grain production to approach those of the cash crops. This will, to a large extent, mobilize farmers' enthusiasm for grain production, increase the inputs of grain production, and maintain a sustained and stable development of grain production.

Development of grain production, and increases in yield do not mean that grain business units are finding the going comfortable. Because: First, grain prices at fixed quotas for marketing approach negotiated prices and market prices. In a year of bumper harvest they are likely to be the same as or lower than negotiated prices. Because of this urban residents give up their plans and go to the countryside to purchase unprocessed food grains, or directly purchase finished food grains. This will

reduce the planned sales of the state-run grain departments. Second, after the practice of letting grain-consuming trades purchase grain at parity prices was abolished, production units, in order to lower production costs, and in accordance with the supply levels at negotiated prices by grain departments, believing it would be to their advantage, would gather funds and go to the grain production areas at harvest times for large quantities of purchase. Third, as grain markets gradually open, the number of units and individuals engaged in grain business will gradually increase. Moreover, they have greater flexibility in methods and means of business than the grain departments. So the grain business pattern with grain departments taking the lead will be broken. Fourth, along with reform of personnel and wage systems, in recent years great numbers of people have moved into grain business departments, which were considered to be "iron rice bowls," "iron wages,"—ensuring stable yields despite drought or excessive rain. Under the circumstances that sales encounter obstacles, and subsidies for business are limited, wages for the personnel in the grain business departments will become a big problem. Judging from this, if the grain business departments do not climb out of the stall of depending upon state subsidies, open up their ways around, and develop a diversified economy, landing in a predicament can hardly be avoided.

### **Farm Bureau Works for Pollution-Free Produce**

*OW1309023892 Beijing XINHUA in English  
0131 GMT 13 Sep 92*

[Text] Beijing, September 13 (XINHUA)—Chinese agricultural departments are striving to knit together a "green food" production system to make farm produce free from industrial pollution

With the growth of the country's industrial infrastructure, it may be inevitable that there are such by-products as excessive dumping of industrial wastes into farmland, according to Liu Lianfu, deputy director of the State Farms Administration Bureau under the Ministry of Agriculture.

Liu said that his bureau is seeking clean land and financial support to develop pollution-free agriculture.

The food will be produced by farms and enterprises under the Ministry of Agriculture and the locations will be in remote areas with ideal ecological environments.

In these areas, chemical fertilizers will be banned.

The effort is mainly aimed at improving the quality of eight kinds of foodstuffs including pork, eggs, milk, grain, fruit, drinks, tea and canned food, Liu said.

"The Chinese Government has brought this green food project into line with its Eighth Five-Year Plan (1991-95)," he said.

During the period, the ministry will establish 95 green food production bases across the country which will join

the current high-quality, nonpolluted food production force comprising at least 70 enterprises.

Included in the measures to carry out the green food project are also the establishment of environmental protection and food inspection institutions and a nationwide raw material processing, scientific research, transportation and packaging network.

The government has formulated an inspection standard for any green food to be sold on the market.

Liu said that China has already approved the official use of its first special trademark for green foods.

The State Administration of Industry and Commerce (SAIC) announced in April its approval of the trademark, "green food," for use of food products which contain no harmful elements.

#### **Zhejiang To Liberalize Grain Markets Next Year**

*OW1209093592 Hangzhou Zhejiang People's Radio Network in Mandarin 1030 GMT 10 Sep 92*

[From the "Provincial News Hookup" program]

[Text] It was learned at today's provincial meeting on agricultural work that, beginning 1 January next year, our province will fully liberalize grain markets and grain prices.

Vice Governor Xu Xingguan said: After liberalization, we will carry out a guidance plan for purchasing grain, except for the collection of agricultural taxes payable with grain. Unified grain prices will be no longer exist, except for grain and edible oil prices that are uniformly set by the state. Grain coupons will no longer be used. In the future, we will fully liberalize grain purchasing and selling prices, including those for fodder and grain products. An experimental lump-sum subsidy will be given to workers and staff members living in urban areas. When a great price fluctuation occurs in grain markets, the government can set minimum and maximum prices for grain transactions to protect the producer and consumer benefits.

Xu Xingguan said: After liberalization, the state will keep a certain amount of grain on hand for dealing with natural disasters, regulating supply and demand, and stabilizing grain prices in markets. At the same time, governments at provincial, city, and county levels should establish grain insurance funds. A multiple-channel grain marketing system will be adopted in the future, enabling the state, collectives, and individuals to participate in the market. Qualified grain and edible oil dealers, after registration with industrial and commercial administrative departments, are allowed to engage in wholesale and retail businesses.

Xu Xingguan said: By liberalization, we do not mean relaxing grain production, or even worse, practicing laissez-faire attitudes by throwing away our responsibilities. The state's input in agriculture, especially in grain production, will gradually increase, rather than decrease, every year.

### Collusion Between Government, Business Decried

92CM0380A Taipei TZULI WANPAO in Chinese  
9 Jul 92 p 4

[Article by Lao Pao: "Let's Play Ball"]

[Text] In this society, so many people have the goal of being idle, and they do it with flair and assurance. Such is the marvelous "Taiwan experience."

Yeh Chu-lan accused the new Kuomintang joint congressmen of conspiring to secure construction contracts, and promulgated a list of names of the congressmen involved. As for Taiwan's political situation, this is of course, only the tip of the iceberg of "madly sharing the loot at the century's end" in the Six-Year National Construction Plan, and the feeling of helplessness of the masses engendered by the evil environment of collusion between government and commerce can be imagined. Undoubtedly, Yeh Chu-lan was trying to create some hope of survival in this chaotic world to keep Taiwanese society from walking the path of self-destruction. Nevertheless, certain voices pointed out that "the press knows more and better than she" about this scandal, with a dignified air scorning the popular heroine, and treating the scandal of governmental-commercial collusion as nothing more than a mere curiosity to be kept strictly to themselves. This is inconceivable.

However, the congressmen accused of being involved in the deal held a news conference to strike back. Of them Wang Tao-fu not only charged Yeh Chu-lan of "daydreaming," but with a great air of righteousness said that he "will not plead for the privileged, but if it is something that will benefit the common people and the state, he will gladly plead for the masses." It seems "pleading" is basically a good thing, but it was "deliberately misconstrued," and became a bad thing. Society's values differ from person to person, and barely exist; we seem to be living in a primitive society.

Suspicions of fraud in the open congressional election of the Democratic Progressive Party were met by the sophistry of "different standards of value." Obvious questions of right and wrong were explained as "factional struggles," and the party chairman preferred to take refuge in going abroad, while condemning others "fabricating news." The former Democratic Progressive Party Secretary Cheng Chun-hung when faced with the criticism about having so many people as party members, actually put forth the ingenious explanation "without people there are no party members." Now when the scandal of election bribery broke out, he condemned this sort of "nit picking" (referring to comparing the Democratic Progressive Party to the money politics of the Kuomintang), which "in the end will reduce the Democratic Progressive Party to only a teacher and a priest, a small amateur party obsessed with ethics." Isn't it wonderful that because the Kuomintang is rotten to the core, the Democratic Progressive Party must introduce into its ranks a few "small-time crooks" to rescue their Taiwan

compatriots? Will everyone being in cahoots together create "Taiwan's new culture?"

As a matter of fact, those Kuomintang congressmen who colluded in awarding construction contracts are not alone; they have bosom friends inside the opposition party. It is Yeh Chu-lan who is to blame for being too "obsessed with ethics." Otherwise, all politicians with the same ambitions will get together, despite party differences, perfectly content, just one big happy family. Isn't this kind of "playing ball" the Democratic Progressive Party's only magic weapon "to gain respect from the opposition?"

### Upcoming December Elections: Another Vote-Buying Game

92CM0394A Taipei TIENHSIA [COMMON WEALTH]  
in Chinese No 135, 1 Aug 92 pp 104-109, 111

[Article by Lin Yi-ling: "Is Taiwan Under the Control of Money-Infested Politics?"]

[Excerpts] [passage omitted] What is fashionable today? In Taiwan's society characterized by a high level of material possessions, there are many people who are worth 100 or 200 million dollars. In the past, it used to be fashionable for people to engage in stock-trading, futures trading and real estate business. But now there is a new fashionable way of investment and managing one's money—to be elected a legislator, develop political and business connections, and participate in decision making.

Since the lifting of martial law, some business-tycoon legislators began to exert their influence in the Legislative Yuan, 90 percent of the legislators are also operating their own business concerns in their spare time. The combination of money and power is increasingly being regarded as a necessary condition for success in the business world of Taiwan. In the year-end election this year, with the encouragement (or tacit approval) from the Kuomintang [KMT], many of those in charge of business conglomerates and enterprises will run. Campaign funds of "nine-digit" figures have come to be considered good for covering only "minimum expenditures" among KMT party workers and possible candidates.

Many people are deeply worried about this coming "rich men's game," especially because this election will be the first time, after four decades of waiting, that all the seats in the Legislative Yuan, the most important national representative organ and political forum, face election; and also especially because this election will "set the tone" for the elections of various levels in the next decade, including the presidential election of the year 1996, in the process of democratic reforms in this country.

Will huge campaign expenditures and the evil vote-buying practices prevent capable and honest people who want to serve society from entering the electoral arena?

Will the huge investment on the legislators exacerbate the evil practices of returning favors and businessmen-politician collusion already in existence in the Legislative Yuan?

Can the situation be reversed? Some of those who criticize but still love the KMT anxiously ask such a question.

Nevertheless, looking around Taiwan at its grassroots level, one sighs with emotions at seeing the "democratic" politics shaped by the KMT through all these years:

At the grassroots level, the campaign style and campaign culture have become so bad that it is hardly possible to reverse the situation; vote-buying and election-related bribery have become indispensable "usual practices."

Local assembly members are all controlled by the underworld, factional forces, privileged groups, and the eight special trades; as a result, local public security and local economic construction are seriously affected.

Some local KMT headquarters either make deals with factional forces and the underworld, or cooperate with them to mutual benefit. During elections, those headquarters either gave implicit encouragement to or assume the major role in the candidates' using huge sums of money to "secure votes," by giving banquets, gifts, and "money for votes"; and organizational and mobilization forces have totally disintegrated.

"Money is flying everywhere," said the Democratic Progressive Party [DPP] member Ch'en Kuang-hua, who ran for a seat in the Second National Assembly and is the chairman of the Young People's Chamber of Commerce of Hsihu Township, Changhua County. Ch'en charges that his KMT opponent defeated him in his village by buying votes at NT\$2,000; this 40-plus-year-old land agent could hardly hide his indignation at the election loss.

A retired local KMT headquarters official said frankly that the KMT began to engage in "vote-buying" as soon as it realized it could no longer succeed through "vote-rigging," and that the only difference is that the practice has become more rampant in recent years. A currently employed party worker said the period when Kuan Chung was the chairman of the provincial party headquarters was the turning point in the process of the KMT's changing from a service-oriented "mobilization party" to a strategy-oriented "election party" in terms of its organizational work. At that time, Kuan Chung strongly advocated the "win all" strategy of leaving nothing to the enemy. Consequently, faced with the strong pressure resulting from the reigning doctrine of "winning is everything," local party workers had to make compromises to existing social forces, leading to the ever-growing strength of some business conglomerates, factional forces, and the underworld.

According to a party and political affairs reporter, early in the office of the KMT secretary-general, Sung Ch'u-yu

expressed some disapproval to the "win all" strategy advocated previously, and he cited several times the United States electoral system of "winning party takes all" in arguing that the KMT did not have to set too high an objective for election victory. For in the United States one of the two parties is considered to have won a landslide and assume power, if it wins only 51 percent of the votes.

Such "common sense" attitude was considered to be disruptive of the strategic planning made by Kuan Chung then in power (chairman of the Organizational Work Commission) who was going all out for victory, and also indirectly resulted in the situation where the KMT won only 60.1 percent of the votes and lost seven offices of county magistrates and mayors, in the Legislative Yuan, county magistrate and mayoral elections of that year.

Therefore, during the grassroots level elections for township heads, mayors and county and city assembly members held in the following month, the competitively minded Sung Ch'u-yu tried hard to reverse the situation of his having a less successful record. He personally went to those local party headquarters that suffered election losses and did some morale-enhancing work, giving one after another morale-enhancing speeches. The election results showed that the KMT won as much as 91 percent and 75 percent of the seats in the two categories of elections respectively. However, the problems resulting from the everything-for-winning practice in those elections also came to be noticed. According to the above-mentioned retired party headquarters official, province-wide about half of the township heads and mayors as well as most of the county or city assembly members are from the underworld or under its control. Even more prevalent is the practice of local elected officials and assembly members engaging in real estate dealings, underworld businesses or securing project contracts; those people are mostly KMT nominees or depend on KMT campaign assistance.

During the Second National Assembly election held last year, the objective of winning three-fourths of the seats to ensure the control of the constitution-amending process was a "just and honorable" campaign objective. In addition to the central party headquarters issuing a command of total mobilization, Sung Ch'u-yu himself also took the lead, making several around-province trips and personally participating in campaigning. As the election results showed, the KMT did win 78 percent of the seats, exceeding the expectation of everyone in the central party headquarters and therefore making them extremely happy.

However, a local figure informed about the inside story said with under tones that the Second National Assembly election was characterized by the most prevalent, most organized and most systematic vote-buying activities ever seen in the localities.

"There should not be too much pressure on the party workers," said Sung Shi-hsuen, Kuan Chung's predecessor as chairman of the provincial party headquarters and chairman of the Organizational Work Commission, who expressed with much emotion his sympathy for local party workers in private conversations.

The development of such "democratic politics" that gives one victories but corrupts the electoral practice, thereby alienating the middle class and the intellectuals, "makes one raise the question as to how much the party center and Sung Ch'u-yu know," a business manager said.

According to a source close to Sung Ch'u-yu, improving the electoral practice cannot be achieved in one day. Sung Ch'u-yu has some knowledge about some of the corrupt local practices. But when faced with one tough election campaign after another, and when the KMT from top to bottom are busy after victory, he cannot but shelve for the time being less urgent matters of rectifying the way in which the organizational work is done.

For the upcoming Legislative Yuan election, the party center again issued the mobilization command of "winning every inch of territory," because based on an analysis done by party people the KMT have come to view this election as so important as to be able to determine whether it can hold on to its power. "To lose the Legislative Yuan is to lose the Executive Yuan," commented an official of the KMT party center's nominating group.

"Election campaigns are like wars; winning is important but it is still necessary to abide by treaty conventions on the conduct of warfare," said a cabinet-level official who asked to remain anonymous. "For instance, one cannot use chemical weapons, or nuclear warheads," said he who expressed his worry about the ever more corrupt electoral practice.

Such growing corruption has its roots in the KMT's failure over the years to focus on the renovation of its organizational mode. The KMT's top officials have gradually come to adopt the method of making deals with local political forces and business conglomerates, and even come to believe that only money and influence can bring victories, an analyst said.

According to Chao Shao-k'ang, 10 years ago when he indicated for the first time that he intended to run for a municipal assembly seat, the party headquarters bluntly asked him: "How many houses do you have? How much in mortgage can be raised on them?"

With regard to the upcoming election, party workers said even more bluntly: "Expenditures will amount to 100 million dollars at least." They expressed the hope that "those who are qualified but do have the money" will not press ahead in the face of the difficulties, so as not to add to the campaign assistance burden placed on party headquarters.

Why does the KMT have such blind faith in the "business conglomerate card?" Is it always necessary to spend huge sums of money to run an election campaign? Not necessarily.

"In campaigns much of the money is often wasted," said the Interior Minister Wu Po-hsiung who once ran for the seat of Taoyuan County magistrate, and had many years of experience of managing campaigns. He always sighs with emotion every time he sees copies of campaign literatures everywhere on the floor after a political discussion meeting. He asks: There is so much literature; but is there anyone who has carefully read all the literature? Propaganda vans often just make noise. How can they help win votes? Will telephone vote-seeking disturb people, and lead to the contrary effect of putting people off?

In fact, most of the gold cow candidates spend most of their campaign funds buying votes, and giving banquets and gifts. And the three things are really just one. With regard to the upcoming Legislative Yuan election, "beginning work" started as early as March. Tens of thousands of dollars have been flowing at the banquets, evening parties and fund-raisers in the localities. Especially, as leaders of many business conglomerates and factional forces intend to have their victories insured in the upcoming Legislative Yuan election, there have been even more energetic activities of vote-seeking.

Even more worrying to a knowledgeable person is that, thanks to the advertising efforts made by the party workers and factional forces, the view about vote-buying as a "necessary evil" has come to be almost generally accepted by the public in recent years.

According to a KMT legislator with a business background, in rural campaigns, vote-buying is "both money-saving and labor-saving," because it makes it unnecessary to hurry between those political discussion meetings, to hire a lot of campaign workers, or to spend large sums of money on decorating the campaign headquarters. He said in a casual manner: "To run a campaign without vote-buying? Too tiring."

"What is the most terrible is that voters each sell their votes for several hundred dollars without feeling any guilt," a high-ranking official with a legal background said. "If one feels he has done something wrong, then he may show some restraint; what is the most terrible is that he regards the gifts and money you gave him as something you owe him," he also said. This official, who visited local people in his status as a nondistrict-based National Assembly candidate during the Second National Assembly election, said that to meet with the voters without handing out some gifts is regarded as a breach of propriety. [passage omitted]

In fact, with the development of the industrial, commercial society, and the enhancement of the people's independent consciousness, some KMT party workers have also come to recognize that vote-buying is becoming less and less effective. According to the estimate made by a

legislator, in the past one could buy 2,000 votes with NT\$1 million (200 dollars per vote, with 40 percent of the votes valid); now it may take NT\$10 million to buy 2,000 votes (500 dollars per vote, with 10 percent of the votes valid).

"To have money is not evil, but nominating rich candidates unavoidably affects the other candidates," said Sung Shi-hsuen, former chairman of the provincial party headquarters and of the Organizational Work commission, who once frankly told a gold-cow class candidate that he did not want to nominate "gold cow" candidates, because of fears about affecting the other candidates and about contributing to the influence of money-infested politics.

According to the chairman of the Taipei municipal party headquarters Chien You-hsin, an ideal party nominee is someone who has a good academic background, a good family background, huge wealth, and grassroots connections, is conscientious and cooperates with the party on policy matters. But he admits that such a person "may never be found."

Sitting in the municipal party headquarters' 10th-floor office where one can have a bird's-eye view of central Taipei, he shook his head and sighed: "We are seeing everything deteriorating before our eyes, but we can do nothing about it." He said the money worshiping and the development of diversified news media in an industrial, commercial society are making election campaigns increasingly expensive, while many in the middle class and many intellectuals who can resist vote-buying just keep silent and abstain from voting.

A media expert believes such a view is just a subterfuge which presents the effect as the cause. He said it is exactly because most KMT nominees are selected to accommodate the factional forces and money-based forces that the middle class has no choice but to abstain.

"Nominees are either from the underworld or people who engage in special trades. Who do you want me to vote for?" a Chengchi University graduate student living in Erhlin said.

KMT decision-makers always defend themselves: "What kind of voters there are will decide what kind of candidates there will be." The KMT is constantly complaining about the ever more corrupt social practices, the lack of education on democracy, the unwillingness of more qualified people to run for office, and the inability of the public opinion to play a supervisory role. But where does the KMT's own responsibility lie? [passage omitted]

#### **Legislative Yuan Seats for Sale Again**

92CM0380B Taipei TZULI WANPAO in Chinese  
15 Jul 92 p 2

[Article by Chen Zhengnong: "Two Hundred Million Yuan for a Congressman"]

[Text] During the congressional election last year it was often reported that 100 million yuan could elect a representative to the National Congress. Though the congressional election this year just began party primary elections, based on the candidates promoted by moneyed, influential groups from all localities, 200 million yuan for a seat won't be uncommon.

The calculation of 200 million yuan is as follows: 30,000,000 yuan for the primary election, 30,000,000 yuan for normal election expenses, and 140 million yuan for purchasing votes. This 140 million, if you figure 300 yuan for a ballot and a 20 percent success rate, can purchase 80,000 votes; and an additional 20,000,000 yuan for middlemen expenses.

In fact, this estimate of the price of a vote might be too low in Changhua, Yunlin, Sanchong of Taipei County, Banchiao and some districts in Kaohsiung City. It was reported in the election at the end of last year that in those districts the price of a vote was 500 yuan. Congressman Chin Niu who depends on vote purchasing to get elected lost those districts, so his value was not merely 200 million yuan.

But supposing it were 200 million yuan for a seat, the motives of those who participate in the congressional election are still hard for people in the streets to comprehend; because if you figure that it costs 200 million yuan to elect a representative, then those who get elected will for the duration of their term in office be the same as losing 2,000,000 yuan every morning when they wake up. If this money, rather than being spent on the election, was put in the bank, in three years it would earn over 40,000,000 yuan or more in interest.

Of course if one could get elected a "200 million yuan congressman," he would not haggle over the amount of money. Whether a bid for six year national construction negotiated prices for reinforced steel bars, cement, transportation of earth or rock, modifications of agricultural or industrial land usage, relocating a railway station by 50 meters or so, allowing preview of the blueprints by congressmen, or a television station license—these are plenty to allow a "200 million yuan congressman" to get back his investment plus interest.

The advantage of a congress full of "200 million yuan congressmen" is that the congress should be much more stable, because ordinarily their rate of attendance is low, and in debates they focus on their own benefit rather than right and wrong. A certain committee in the legislature with "state" in its name has quite a few such congressmen.

Such congressmen will be good helpers for the Executive Yuan. If their own interests are not involved, they will fall all over themselves to aid the Executive Yuan in expectation of secret reward. This is just like when they use bribery to defeat the Democratic Progressive Party in the election; they are the great heroes in consolidating Koudintang rule!

NTIS  
ATTN PROCESS 103

2

5285 PORT ROYAL RD  
SPRINGFIELD VA

22161

This is a U.S. Government publication. Its contents in no way represent the policies, views, or attitudes of the U.S. Government. Users of this publication may cite FBIS or JPRS provided they do so in a manner clearly identifying them as the secondary source.

Foreign Broadcast Information Service (FBIS) and Joint Publications Research Service (JPRS) publications contain political, military, economic, environmental, and sociological news, commentary, and other information, as well as scientific and technical data and reports. All information has been obtained from foreign radio and television broadcasts, news agency transmissions, newspapers, books, and periodicals. Items generally are processed from the first or best available sources. It should not be inferred that they have been disseminated only in the medium, in the language, or to the area indicated. Items from foreign language sources are translated; those from English-language sources are transcribed. Except for excluding certain diacritics, FBIS renders personal names and place-names in accordance with the romanization systems approved for U.S. Government publications by the U.S. Board of Geographic Names.

Headlines, editorial reports, and material enclosed in brackets [ ] are supplied by FBIS/JPRS. Processing indicators such as [Text] or [Excerpts] in the first line of each item indicate how the information was processed from the original. Unfamiliar names rendered phonetically are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear from the original source but have been supplied as appropriate to the context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by the source. Passages in boldface or italics are as published.

#### SUBSCRIPTION/PROCUREMENT INFORMATION

The FBIS DAILY REPORT contains current news and information and is published Monday through Friday in eight volumes: China, East Europe, Central Eurasia, East Asia, Near East & South Asia, Sub-Saharan Africa, Latin America, and West Europe. Supplements to the DAILY REPORTs may also be available periodically and will be distributed to regular DAILY REPORT subscribers. JPRS publications, which include approximately 50 regional, worldwide, and topical reports, generally contain less time-sensitive information and are published periodically.

Current DAILY REPORTs and JPRS publications are listed in *Government Reports Announcements* issued semimonthly by the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 and the *Monthly Catalog of U.S. Government Publications* issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

The public may subscribe to either hardcover or microfiche versions of the DAILY REPORTs and JPRS publications through NTIS at the above address or by calling (703) 487-4630. Subscription rates will be

provided by NTIS upon request. Subscriptions are available outside the United States from NTIS or appointed foreign dealers. New subscribers should expect a 30-day delay in receipt of the first issue.

U.S. Government offices may obtain subscriptions to the DAILY REPORTs or JPRS publications (hardcover or microfiche) at no charge through their sponsoring organizations. For additional information or assistance, call FBIS, (202) 338-6735, or write to P.O. Box 2604, Washington, D.C. 20013. Department of Defense consumers are required to submit requests through appropriate command validation channels to DIA, RTS-2C, Washington, D.C. 20301. (Telephone: (202) 373-3771, Autovon: 243-3771.)

Back issues or single copies of the DAILY REPORTs and JPRS publications are not available. Both the DAILY REPORTs and the JPRS publications are on file for public reference at the Library of Congress and at many Federal Depository Libraries. Reference copies may also be seen at many public and university libraries throughout the United States.